FRONTIER DEVELOPMENTS PLC

Annual report and accounts 2013

(Registered No 02892559)

FRONTIER DEVELOPMENTS PLC

FRONTIER PLANS TO USE ITS PROPRIETARY SOFTWARE TECHNOLOGY TO LEAD THE GAMES INDUSTRY IN ITS TRANSITION TO THE WORLD'S PREMIERE FORM OF ENTERTAINMENT.

HIGHLIGHTS

UNDERLYING REVENUE

£12.0m +19%

ADJUSTED EBITDA

£3.6m +12%

LIKE-FOR-LIKE OPERATING PROFIT

£1.8m +27%

ADJUSTED EPS

7.3p +25%

OPERATIONAL HIGHLIGHTS

- We raised £1 55 million from a crowd-funding campaign for our *Elite Dangerous* self-published title
- We increased our capacity by opening our first overseas development studio, in Halifax, Nova Scotia, Canada
- We adapted our Cobra software technology to work with new 64-bit CPU architectures
- We released our first game with a cloud-based server backend and successfully supported over 500,000 concurrent users
- We started development of an Xbox One launch title to accelerate our technology development for the new game console generation

REVIEW OF THE YEAR

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

OUR BUSINESS

About us

Frontier plans to use its proprietary software technology to lead the games industry in its transition to the world's premiere form of entertainment

The Group has 240 full-time employees and operations in Cambridge, UK and Halifax, Nova Scotia, Canada Frontier has a proven track record of software technology and video games development and innovation spanning three decades of rapid technological change

Frontier has exploited its technology to develop innovative video games across a wide variety of different game genres and platforms, and has established relationships with globally renowned partners

We are transitioning from being primarily a developer of video games for major external publishers into a business which develops and licenses technology to support games for major external publishers, other developers and our own self-published game titles

"THE RISE OF DIGITAL DISTRIBUTION VIA 'APP STORE' ECOSYSTEMS ON ALL VIDEOGAME PLATFORMS PRESENTS INCREDIBLE OPPORTUNITIES FOR FRONTIER."

David Walsh Chief Operating Officer

$78.5bn

value of the global video game market in June 2012 Source Reuters

50bn

downloads from Apple's App Store, as of May 2013 Source Apple

130m

Xbox 360 and PlayStation 3 consoles have been sold, with next-gen versions launching November 2013 Source Reuters

ZOO TYCOON

Frontier's launch title for the Xbox One in November 2013 " could convince you better than anything else out there that you've done the right thing in investing in the next-generation"

Martin Robinson, Eurogamer com

Our technology

COBRA has been carefully planned, developed and evolved since 1988 We develop our own cutting-edge techniques and tools, and supplement this with licensed middleware for 'commodity' uses as appropnate This allows COBRA to maximise the performance extracted from hardware platforms and fully leverage the efforts and talents of content creators Cobra has allowed Frontier to deliver industry-leading gameplay innovations and efficient multi-platform development since 1988.

COBRA allows game teams to develop and debug their games primarily on desktop computers, without the need to concern themselves with the technical details of the individual target platforms unless necessary It also makes for clean, structured code, where the game logic only needs one set of verification at the beta stage of the project – greatly reducing the amount of testing time required for additional platform versions of a game

COBRA also has a sophisticated tools framework which enables rapid development of powerful tools These tools offer the ability to view, tweak and review changes to resources of all types in game on the target platform(s), in a live game session that is running on that platform, without the intervention of a programmer Our tools philosophy is to design aids to maximise the impact of skilled people on games development and remove barriers to getting the results of their work in-game and iterated, so that work can be as polished as possible

Most recently, we have added Cloud-based capability to COBRA, whereby Frontier's code running on commodity servers interacts with games to provide data-driven game rules and information gathering This facilitates full play through tracking, sophisticated A-B tests, player segmentation and friends' lists as well as the usual leader-board and achievement functionality

FRONTIER'S TECHNOLOGY ORIGINS

David Braben co-authored the seminal '*Elite*' game in 1982 with Ian Bell *Elite* was one of the first home computer games to use 3D graphics and the first to employ an open-world 'sandbox' game play model Its revolutionary 3D graphics ensured that the game created the modern space flight simulation genre and influenced gaming as a whole

ELITE: DANGEROUS

Frontier's high-end franchise re-boot uses the latest COBRA technology to deliver an innovative multi-player experience in galaxy containing 100 billion star systems, the largest game-environment ever created

OUR BUSINESS
continued

"COBRA IS A SINGLE, POWERFUL TECHNOLOGY SOLUTION THAT SUPPORTS MANY TARGET HARDWARE PLATFORMS, CAN BE SUCCESSFULLY USED BY LARGE DEVELOPMENT TEAMS, AND IS FLEXIBLE ENOUGH TO CREATE GAMES IN A WIDE VARIETY OF GENRES."

David Walsh Chief Operating Officer

Our cross-platform approach

Frontier's COBRA proprietary cross-platform technology allows code and resources developed on PC to be compiled and run on different platforms such other desktop and laptop computers, tablets, videogame consoles and smartphones, whilst offering the ability flexibly to take advantage of the different platforms' capabilities (e g different artwork resolutions, shaders etc)

The current fourth generation of COBRA provides a common platform-neutral core API and resource pipeline that isolates both game code and resources from the underlying hardware, whilst maximising use of the multi-processor, multi-threaded environment

COBRA has been successfully used for a wide variety of game genres, and by development teams that range in size from a handful to many hundreds of people

Apple iOS iPhone iPad and iPod Touch	**MacOS** Apple Mac computers	**Google Android** Smartphones and tablets	**Microsoft Windows** PCs and Windows phone	**Microsoft Xbox** Xbox 360 and Xbox One consoles	**Nintendo Wii** Original Wii and Wii U consoles	**Sony PlayStation** PS3 and PS4 consoles

LOSTWINDS2

Frontier's *LostWinds2* was the Apple App Store's iPad game of the week, and featured graphical techniques normally available only on dedicated videogame consoles

25+

years experience and development in the video games industry

55+

games developed, to date, using our proprietary COBRA technology

240

staff in two offices Cambridge, UK and Halifax, Nova Scotia

Key strengths and opportunities

Proven track record
Frontier has a track record of successfully exploiting its software technology in games over a period spanning three decades

Highly experienced and respected management
The Group's management team, led by David Braben, has successfully implemented its technology strategy and delivered an industry leading games development capability which has led to improved revenue and profitability and the current opportunity

Industry leading multi-platform development technology
Proprietary 'Cobra' technology powers innovative, efficient, cross-platform software development spanning personal computers, tablets, smart phone and video game consoles and a wide variety of game genres

Significant IP portfolio
The Group's IP catalogue includes potentially valuable properties including the rights to the *Elite* franchise

Profitable and established business
Adjusted EBITDA growth over the four financial years ended 31 May 2013

Blue-chip international client base
The Group has established relationships with key industry players

Growth opportunities
The Directors believe that the Group has strong growth prospects

COASTER CRAZY

Coaster Crazy was Frontier's first release to use COBRA's cloud-based server backend Frontier's server technology successfully supported a maximum of over 500,000 concurrent users

CHAIRMAN'S STATEMENT

"WE ARE MAKING GOOD PROGRESS IN OUR TRANSITION INTO A BUSINESS WHICH DEVELOPS AND LICENSES TECHNOLOGY TO SUPPORT GAMES FOR MAJOR EXTERNAL PUBLISHERS, OTHER DEVELOPERS AND OUR OWN SELF-PUBLISHED GAMES."

David Gammon
Non-Executive Chairman

The year ended 31 May 2013 and the current financial year are transitional years for our Company We concluded a very successful crowd-funding programme to support the development of *Elite Dangerous* Since the year end we have also completed the listing of the Company's shares on AIM by way of an IPO

We are making good progress from being primarily a developer of video games for major external publishers into a business that develops and licenses technology to support games for major external publishers, other developers and our own self-published game titles

To fund this transition we raised £9 7 million in three tranches £2 7 million came via a pre-IPO placing over May and June, £4 0 million came from institutions that subscribed to new shares in our IPO, and £3 0 million has been provided by our bankers through a revolving credit facility

I'd like to take this opportunity to thank all those who have supported our vision and plan by subscribing for shares

Looking at our financial performance in 2013, we saw an underlying increase in revenue (19%) and EBITDA (12%) Headline revenue decreased by 15%, and EBITDA showed an 12% reduction Like-for-like operating profit and adjusted earnings per share also grew This is explained simply by the fact that in 2012 we booked pass-through revenue that did not apply in 2013

In the year ended 31 May 2014 we expect to further execute our plans to maintain our existing valued relationships, focus strongly on the development and launch of *Elite Dangerous*, and continue to invest significant resources in the development of our technology for third party use We expect revenues from our traditional publishing business to reduce whilst we invest in building the new elements we need for the transition

I would like to pay tribute and gratitude to the 35,138 (at the time of writing) gaming fans that have invested in our crowd-funding campaign for the development of *Elite Dangerous* Their response and enthusiasm has been a key ingredient in helping shape our strategy We know that they are an expert and discerning audience and we continue to value their input as we work together through the alpha and beta phases towards a full public retail launch later in 2014

Finally, Frontier has earned a deserved reputation for excellence and quality from its customers, which is only possible because of the dedication, skill and hard work of its people I would also like to take this opportunity to thank them for their sustained effort and commitment

David Gammon
Non-Executive Chairman
13 November 2013

CHIEF EXECUTIVE'S REVIEW

"ALONGSIDE STRONG FINANCIAL PERFORMANCE, THE GROUP SAW A NUMBER OF OPERATIONAL HIGHLIGHTS DURING THE FINANCIAL YEAR AND SUBSEQUENTLY."

David Braben
Founder and Chief Executive Officer

In the financial year ended 31 May 2013, Frontier Developments delivered strong growth in underlying revenue, which increased 19% to £12 0 million Adjusted EBITDA rose 12% to £3 6 million, like-for-like operating profit was 27% higher at £1 8 million, and adjusted basic earnings per share rose 25% to 73 pence (as set out in the Financial Review)

Alongside this strong financial performance, the Group saw a number of operational highlights during the financial year

Studio in Halifax, Nova Scotia
We opened our first overseas studio, in Halifax, Nova Scotia, Canada, in August 2012 North America is a strategically important region for the games industry We had been looking at Nova Scotia for some time due to the attractiveness of the province's Digital Media Tax Credit programme, its attractive geographic location and the new talent pool offered by the existing healthy ICT sector and local universities

Further Cobra technology developments
We completed the adaption of our Cobra software technology to work with 64-bit CPU architectures, which will allow us to continue to extract maximum performance from the new generation of CPUs starting to appear in console, smartphone and tablet hardware We now have a proven, mature solution for taking full advantage of 64-bit multi-core processor systems as used in key new hardware target platforms such as the Xbox One, PlayStation4, iPhone 5S and iPad Air

Coaster Crazy
We completed development and released a new game IP, *Coaster Crazy* The game was based on our cross-platform Cobra technology and incorporated very sophisticated roller coaster construction techniques, which are based on our experience as a world-leading roller coaster game creator

Coaster Crazy was our first game with a cloud-based server back end The game achieved a maximum of over 500,000 concurrent users with our server technology performing well We released *Coaster Crazy* on iOS devices and, as with *LostWinds* and *LostWinds2* on iOS, the game received significant promotion from Apple In addition we promoted it via in-game cross-selling in our own *LostWinds* iOS games and used third party marketing channels

CHIEF EXECUTIVE'S REVIEW

continued

Crowd-funding for *Elite Dangerous*
In November 2012 we started a 60-day crowd-funding campaign using both Kickstarter com and our own website When the Kickstarter campaign closed on 4 January 2013 we had raised £1 55 million, exceeding our 'ask' of £1 25 million This was the highest crowd-funding target ever successfully achieved on Kickstarter We had 26,834 individuals backing the project, and some 8,304 more (at time of writing) have participated through our own website since

This clearly demonstrates the viability of the *Elite Dangerous* project We had previously been running the project in order to develop the key innovative technologies necessary to deliver the game's vision, and this additional funding has allowed us to put it into full production We continue to successfully communicate with the large customer/stakeholder community that has provided this funding, and this close dialogue and engagement will continue to the initial launch of the game and beyond

Key industry partnerships
We also continued our close working relationship with Microsoft, starting development of an Xbox One launch title based on Microsoft's popular *Zoo Tycoon* franchise, giving us experience on the new console hardware early This is in addition to working with other important partners such as Apple, Nintendo, Amazon and Atari

Recent developments
We have continued working with Microsoft on *Zoo Tycoon*, planned for commercial release in November 2013 alongside the Xbox One launch, as one of the five full disc-based games to be released by Microsoft Studios at the launch of Xbox One

We announced *Coaster Crazy Deluxe* for the Nintendo WiiU – this game is an extension of our *Coaster Crazy* title and will use more new online functionality We have taken advantage of partnering opportunities with Nintendo to promote the game

We announced a new relationship with Atari, whereby our e-commerce strategy is accelerated We now have non-exclusive rights to distribute Atari games, as well as the rights to publish our *RollerCoaster Tycoon 3* game on new platforms

We also announced that the Alpha testing phase for *Elite Dangerous* will begin in December 2013 and that we were planning to support the Oculus Rift virtual reality headset in the game

Strategic overview and outlook
Our investment programme in our platform technology will benefit and facilitate better and more cost-effective results for our third party publisher games, such as *Zoo Tycoon*, and will also improve our own self-published offering with *Elite Dangerous* and other games going forward The high graphical quality and very efficient development we have achieved with *Zoo Tycoon* is a great demonstration of this capability

Elite Dangerous will be sold directly to customers through our own e-commerce platform and through third parties

We are confident that other developers and/or publishers will take advantage of our sales portal and cross-platform technology, and over time we will cover an increasing number of games, platforms, new features and facilities

Frontier is in transition as our publishing activity with *Elite Dangerous* and the associated new services ramp up Although the opportunities and scope for *Elite Dangerous* to grow and develop are very substantial and the potential financial rewards significant, particularly given how fast our markets grow and change, it is very difficult for the Board to know exactly how quickly it will be taken up For example, some PC online games (*Elite Dangerous* is a PC online game) that have caught the public's imagination, such as *Minecraft* and *World of Tanks*, have reached estimated revenues of over £100 million per annum over a small number of years Others have not grown quite so quickly, but on the additional platforms the levels of success could be higher still

We expect *Elite Dangerous* revenues to grow gradually in a similar way to other PC online games, but also that it will hit a quality resonance at which point revenues would increase significantly, as it did for those other titles

We started the current financial year as we expected and are now executing the transition of our business to its next stage Overall, despite the expected reduction in headline revenue and EBITDA over the transition, I believe that the continued delivery of our plan will result in much greater opportunity and returns

David Braben
Chief Executive Officer
13 November 2013

FINANCIAL REVIEW

£7.2m

cash balance at £7 2m at year end

+56%

investment of 566 man months in technology and self-published titles up 56%

+58%

self-published revenue 58% higher at £0 5m

The Board is pleased to provide a detailed review of the financial highlights

Group trading performance

The Group's underlying trading performance was improved from the prior year The Group is now entering an investment phase up to the launch of *Elite Dangerous* and associated technology development and licensing

Revenue

We delivered a 19% growth in underlying revenue after excluding subcontract costs recharged to customers at nil margin, reconciled as follows

Underlying revenue £ 000	**2012–13**	2011–12	%
Headline revenue	**12,072**	14,157	(15%)
Subcontract pass-through	**(26)**	(4,033)	(99%)
Underlying revenue	**12,046**	10,124	19%

The launch of *Coaster Crazy* and recognition of *Elite Dangerous* revenues enabled the Group to show growth in our self-published revenues of 58% Growing our self-published revenue stream is one of our strategic aims We recognised an element of revenue for *Elite Dangerous* from our crowd-funding raise on commencement of delivery of pledges and sold £0 02 million of merchandise in the year Our *LostWinds* iOS titles continued to sell at 88% of their prior year level

Publishing revenue was lower, as we did not work on any game titles that required significant subcontract pass-through revenues We worked on three projects for our key client, two of which are due to be released in the financial year 2013–14

Royalty income was impacted by one of our publishing partners, Atari Interactive Inc (Atari), going into Chapter 11 Revenues from 1 October 2012 to 20 January 2013 sit within the pre-petition creditor balances of Atari and prudently have not been included These income streams from Atari originate from our *Roller coaster Tycoon 3* development and IP licence agreement

Revenue mix £'000	**2012–13**	2011–12	%
Publishing	**11,355**	13,499	(16%)
Self-published	**511**	323	58%
Royalties	**203**	335	(39%)
Other	**3**	—	—
	12,072	14,157	(15%)

FINANCIAL REVIEW
continued

Intangible assets and research and development expenditure
Investment in our own IP capitalised in the year was up 27% at £1 7 million, reflecting Frontier's commitment to a strategic software development programme in respect of our Cobra technology and self-published titles

A good proportion of our investment is in research and development, representing £0 76 million (2012 £0 73 million), an increase of 4% Research and Development expensed rose to £0 60 million from £0 33 million

Frontier expensed £0 36 million of costs within software development projects

Gross margin and contribution
The overall gross margin rose to 30% from 20% On an underlying basis, after stripping out pass-through recharges, the improvement was 2% This underlying improvement stemmed mainly from improved margins in the Publication business exceeding a lower margin for self-published titles which are impacted by a cautious approach on capitalisation and amortisation in the relatively new mobile platform segment

Profitability and adjusted EBITDA
Frontier is in a state of transition, following its listing of the Group's shares on AIM in July 2013 As a consequence the Board monitors performance on an adjusted EBITDA basis The adjusting items were primarily share-based compensation and funding costs associated with the IPO

Operating profit was 24% lower at £1 05 million and EBITDA 11% lower at £2 85 million

Compared to 2011–12 on a like-for-like basis, without the one-off funding costs and share-based compensation, operating profit rose 27% Adjusted EBITDA rose 12% to £3 62 million

The reconciliation is as follows

	2012–13 £'000	2011–12 £ 000	%
Operating profit	**1,052**	1,390	(24%)
Depreciation	**151**	185	
Amortisation	**1,650**	1,623	
EBITDA	**2,853**	3,198	(11%)
Share-based compensation	**416**	—	
Funding costs	**308**	—	
Dilapidations provision	**37**	37	
Canada setup fees	**10**	—	
EBITDA adjusted	**3,624**	3,235	12%

Finance income
Interest receivable from the Group's cash resources nearly doubled to £19,000 from £10,000 and remains at low levels due to the current interest rate environment worldwide

Income tax
The charge in the year remained low, mainly comprising a rebate on overseas tax of £5,735 and UK tax on finance income of £3,716 The Group recorded a deferred tax liability of £27,793 for overseas tax due to the timing difference over which R&D tax relief and a local digital media tax rate operate The holding company continues to hold unused tax losses of £3 69 million to set against future taxable profits generated in the UK

Corporate structure
On 21 December 2012 the Company changed its status by re-registering as a plc The share capital was expanded and re-denominated into units of 0 5 pence

Earnings per share
The basic earnings per share reduced from 5 7 pence per share to 4 2 pence based on a weighted average number of shares of 25 0 million (2012 24 7 million)

On a diluted basis the earnings per share dropped from 5 5 pence to 4 1 pence based on a weighted average number of shares of 25 5 million (2012 25 5 million)

The adjusted earnings per share rose to 73 pence from 5 8 pence per share on an undiluted basis (a 25% increase), as a result of the improved adjusted EBITDA figure

Dividend
The Directors are not recommending the payment of a dividend (2012 £nil)

Share issues
Employees converted 505,382 (re-denominated) share options into ordinary shares in November 2012, the exercise proceeds were £166,776

The Group granted 1 6 million share options in the year, the first grant for seven years

A convertible loan was issued towards the end of the year granting shares at a discount of 15% to the IPO flotation price The amount received was £1 13 million

Subsidiary setup
On 27 July 2012 the Company incorporated Frontier Developments Inc in Halifax, Nova Scotia, with CD$100 of share capital

Balance sheet
The Group received Convertible loans to the value of £1 13 million just prior to year end and increased net investment in intangibles to £3 5 million

Non-current assets
Investment in intangibles was focused on developing self-published titles, *Elite Dangerous* (scheduled for release in 2014) and *Coaster Crazy* on the iOS platform (released during the year)

The Group maintained prudent amortisation rates to reflect the dynamic changing nature of the video games sector

Current assets
Trade and other receivables decreased by £0 42 million to £2 08 million mainly as a result of receipt of contracted income from publication customers

Current liabilities
Trade and other payables increased by £2 19 million to £3 06 million The main drivers for this increase were convertible loan notes of £1 13 million, deferred income of £0 56 million and funding cost accruals of £0 23 million

Deferred income constituted both crowd-funding 'pledges' expected to be delivered within one year for *Elite Dangerous* and Publication contract revenue

Non-current liabilities
The Group fully offset UK deferred tax liabilities with deferred tax assets that were available An overseas deferred tax liability of £0 03 million was provided against government assistance due The holding company added to its dilapidation provision ahead of leases expiring in 2015 Deferred income of £1 28 million represents crowd-funding 'pledges' expected to be delivered after one year for *Elite Dangerous*

Cash and cashflow
The Group's operating cashflow rose by £4 1 million to £6 2 million mainly driven by the working capital changes These comprised a £1 56 million raise from a successful Kickstarter campaign for *Elite Dangerous* In addition the Group raised £1 13 million from the issue of convertible loan notes

The Group invested £2 0 million in non-current assets, up by £0 57 million

Non-cash costs included share-based compensation charges of £0 42 million (2012 £nil)

Cash balances were also increased by the injection of £0 17 million of share capital proceeds

The overall impact was an increase of £5 47 million in cash and cash equivalents to £7 16 million, being a positive staging point for the Group's investment and growth plans

Key performance indicators
In addition to the adjusted revenue and EBITDA measures mentioned previously as a key indicator of growth and profitability, the Group is looking to invest in its own content to produce a balanced spread of income streams

% of revenue by segment	2013	2012
Publishing	**94%**	95%
Self-published	**4%**	2%
Royalties and other income	**2%**	2%

As part of the strategy the Group is investing in its own technology and content

Man months	2013	2012
Self-published	**376**	202
Technology	**190**	161

Risk
The principal financial risks are those of liquidity and currency

Liquidity risk is considered in respect of projected revenues from self-published titles being slower to materialise than expected, particularly in respect to *Elite Dangerous* The successful crowd-funding campaign and post-year IPO raise and revolving credit facility have significantly mitigated these risks

As the Group expands its revenue sources the amount of revenue originating in non-Sterling currencies will increase The cost base of the Canadian operation is also likely to become material The company currently holds contracts in USD which is seen as a natural hedge for the Canadian operational costs over the next two years The currency exposure is monitored closely

Neil Armstrong
Company Secretary and Chief Finance Officer
13 November 2013

PRINCIPAL RISKS AND UNCERTAINTIES

The Group faces competitive and strategic risks that are inherent in a rapidly growing emerging market The Audit Committee maintains the Risk Register and escalates the Key risks for further consideration at full Board level on a regular basis

Key business risks affecting the Group are set out below

Business risks

Description		Mitigation
Strategic focus		
The Group is intending to diversify its business base to a balanced mix of technology, self-published and published based revenue streams Inherently such a strategic shift of focus creates execution risk, whilst perhaps reducing financial risk based on a small customer base	>	The Group is confident that it can deliver on both the technology and the commercial relationships that support this strategy
Financial		
The Group recognises that it is currently dependent on a small number of sources of revenue, and this has the potential to cause financial stress should these relationships break down	>	The Group is confident that if this were to happen it could undertake work for other customers whilst it builds up a diversified revenue base
Technology		
The Group operates in a fast moving industry where monetisation strategies for video games and the associated technology platforms are evolving rapidly The ability to both forecast and monetise revenue streams is subject to a risk of uncertainty that may not cover development costs	>	The Board believes that its design of its own technology and self-published games, ability to execute on high end technology platforms and the flexibility demonstrated by the diverse range of video games we have successfully developed in the past mitigates some of this risk
Growth management		
The Group's future success will depend on its ability to manage anticipated expansion This now includes the management of an overseas based subsidiary and may include acquisitions Such expansion is expected to place demands on management and support functions If the Group is unable to manage its expansion effectively, its business and financial results could suffer	>	In order to mitigate this risk, the Group is investing in suitable training for key staff and key internal systems The Group continues to seek to strengthen its Non-Executive Director base and has appointed key advisors with experience in the sector to ensure these risks are managed objectively
Attracting and retaining staff		
The Group acknowledges that it is in a sector where world class staff are in high demand	>	The Group is undertaking a three year programme of improving incentives and leadership skills which is intended to further enhance its attractiveness as an employer

Financial risk management objectives and policies

As part of its listing process the Group took the opportunity to review its financial environment and practises This led to improved Corporate Governance, financial policies and internal controls to manage financial risk and align financial measures with the strategic objectives it is committed to

Description	Mitigation
Currency risk	
The Group's reporting currency is pounds Sterling (GBP) Exposure to currency exchange rates arises where transactions are in a currency other than the functional currency of the entity, primarily Canadian dollars (CAD), US dollars (USD) and Euro (EUR)	Currency risk is managed by ensuring, where possible, that financial revenues and operating costs are denominated in £ Sterling or where subcontract costs have been recharged, they have been recharged in the same currency The operating costs of the Canadian entity are matched to USD revenue flows where possible, as this exchange rate has been more stable than via the £ Sterling The Group does not enter into forward exchange contracts to mitigate the exposure to foreign currency risk as the Group's currency transactions are not considered significant enough to warrant this However the Group does seek to maintain the same level of working capital in both its Canadian Subsidiary and in the UK parent, measured in calendar months
Liquidity risk	
Liquidity risk is the risk arising from the Group not being able to meet its obligations as they fall due	The Group seeks to manage this risk by ensuring sufficient liquidity is available to meet the foreseeable needs and to invest cash assets safely and profitably The Group's policy throughout the year has been to place surplus funds on short-term treasury deposits based on its detailed cashflow forecasting The Group prudently manages its liquidity needs by carefully monitoring forecast cash inflows and outflows both in the short and medium term The Admission to AIM and pre-IPO placing has strengthened the balance sheet and combined with the £3 million revolving credit facility has enabled the Group to resource an accelerated growth plan Net cash requirements are compared to balances in order to determine headroom or any shortfalls This analysis shows that available cash is expected to be sufficient to continue to operate as it is currently
Credit risk	
Credit risk is the risk that a third party might fail to fulfil its performance obligations under the terms of a financial instrument	The Group's exposure is limited to the carrying amount of financial assets and cash and cash equivalents recognised at the year-end date (as summarised in notes 14 and 15) The Group's management consider all financial assets, not impaired, for each reporting date are of good credit quality, including those past due In respect of trade and other receivables the Group is exposed to significant credit risk for a single counterparty The Group considers it has minimal credit risk for liquid funds and other short term financial assets as cash is held with reputable UK and Canadian banks At the year end none of the Group's financial assets are secured by collateral or other credit enhancements
Interest rate sensitivity	
Interest rate risk is the current or prospective risk that earnings and/or capital are negatively affected by interest rate changes in the financial markets	The convertible loan notes issued carry a fixed rate of 8% per annum The Group has no other borrowings through which it is subject to interest rate risk The risk associated with interest earned on cash balances is low given low level of interest currently being earned worldwide

DIRECTORS' BIOGRAPHIES

DAVID GAMMON

Non-Executive Chairman

Joined February 2012

Experience David has over 15 years' experience as an investment banker having worked for Baring Securities, Salomon Brothers, Robert Fleming & Co and Credit Lyonnais Since 2001, David has focused on developing, advising and investing in UK technology companies In 1988, David founded Rockspring, an advisory and investment firm which focuses on early stage technology companies and where David continues as CEO today Other current positions include non-executive directorships at LoQ plc and Imaginatik plc He is group strategic advisor to Marshall of Cambridge (Holdings) Limited, and acts as general advisor to DeepMind Technologies Limited and Hawkwood Capital LLP

Committees Audit, Remuneration, Nominations

DAVID BRABEN

Founder and CEO

Joined David was the founding shareholder of Frontier in January 1994

Experience David is the co-author of the seminal *Elite* title and has over 30 years' experience in the gaming industry David is also a founding trustee of the Raspberry Pi Foundation, a charity which aims to inspire a new generation of children to get interested in computer science through the use of a credit-card sized computer that plugs into your TV and a keyboard David was formerly a non-executive director of Phonetic Arts, a Cambridge-based company focused on speech synthesis that was acquired by Google in December 2010 David is a member of the BAFTA games committee, a Fellow of the Royal Academy of Engineering and the chairman of Skillset University Approvals Board

Committees Nominations

DAVID WALSH

Chief Operating Officer

Joined September 2001

Experience David has over 25 years' experience of engineering and commercial management roles in high-growth technology companies In 2001 David joined Frontier from ARM, the FTSE/NASDAQ listed microprocessor IP licensing company where he served for six years, helping to grow the company and as director of software systems setting up a division of the company to facilitate adoption of the architecture in key target market segments In 2012 David established and became President of Frontier Developments Inc, Frontier's wholly owned Canadian subsidiary, and he also serves as a board member of the Entertainment Software Association of Canada

Committees Remuneration

JONNY WATTS

Chief Creative Officer

Joined November 1998

Experience Jonny has over 26 years' experience in gaming He joined the Company in 1998 from Sensible Software, and over the course of his career has been involved in all aspects of the creation of 23 published games such as *Sensible Soccer, Cannon Fodder, Roller coaster Tycoon 3, Kinectimals, LostWinds, Kinect Disneyland Adventures* and *Kinect Star Wars* Jonny's titles span the full range from indie development to 400-person projects, encompass a diverse range of genres, and together have been enjoyed by over 34 million people worldwide Jonny holds zoology and computer science degrees and is an active member of BAFTA, including serving as a judge for five years and on the BAFTA Young Designer committee

JONATHAN MILNER

Non-Executive Director

Joined November 2012

Experience Jonathan is an experienced entrepreneur and business leader with a background in genetic research In 1998, he founded Abcam with David Cleevely and Professor Tony Kouzarides, to supply the rapidly growing market for antibodies and other life science reagents As CEO, Jonathan was instrumental in building Abcam into an £800+ million company Jonathan is an active supporter of the Cambridge, UK business community He is also a non-executive director of Horizon Discovery, a personalised genomics company

Committees Remuneration

NEIL ARMSTRONG

Company Secretary and CFO

Joined June 2009

Experience Neil is a chartered accountant (ACA) with over 24 years' experience He has previously held positions as finance director or financial controller with Skillshare International, the International Institute for Environment and Development, Cowells Arrow Bingo Company, Cinram UK Limited and Dane & Company Limited

David Gammon

David Braben

David Walsh

Jonny Watts

Jonathan Milner

Neil Armstrong

CORPORATE DIRECTORY

Directors
Mr D R Gammon
Mr D J Braben
Mr D J Walsh
Mr J F Watts
Dr J S Milner (appointed 1 November 2012)

Company Secretary and CFO
Mr N R Armstrong

Registered office
306 Science Park
Milton Road
Cambridge CB4 0WG

Company number
02892559

For a full list of Advisors and Company Information see inside back cover

REPORT OF THE DIRECTORS

for the year ended 31 May 2013

The Directors present their report on the affairs of the Group and Company together with the financial statements for the year to 31 May 2013 The financial statements are prepared under International Financial Reporting Standards (EU-adopted IFRS)

Principal activities
The principal activity of the Group and Company in the year under review was that of design and production of computer software, particularly video games within the interactive entertainment sector

Review of business
A more detailed review of the Group's activities is contained within the Chairman's Statement, the Chief Executive's Review and the Financial Review

We continued our transition towards a technology company within the interactive entertainment sector

We continue to develop and invest in novel enabling technology and tools for our FGDK multi-threaded game development platform (known publicly as COBRA), as well as supporting selected third party technology and/or tools that we believe provide a cost-effective value-add for our developments In the year we added functionality for the latest versions of iOS and Windows 8, as well as preparing for the new generation of games consoles

In order to add resource for this transition we set up our subsidiary in Halifax, Nova Scotia, Canada, in July 2012

As part of our strategy of diversifying revenue streams we released our self-published rollercoaster game *Coaster Crazy* on the iOS platform and commenced development for its release on WiiU and a deluxe version on iOS

We continued to work with Microsoft Studios on a number of projects, including *Zoo Tycoon,* scheduled for release on the Xbox One

To fund our plans we were able to raise £1 13 million in convertible loan notes by the year end, subsequently rising to £2 71 million and £0 13 million in equity We took the opportunity to float on AIM on 15 July 2013 raising a further £4 03 million gross and securing a £3 00 million revolving credit facility with Barclays Bank plc

The Board is grateful for the continuing support from its key shareholders

Key performance indicators
The Directors took the opportunity to refresh the key performance measures that underpin the strategy of the Group during the year

The key performance indicators that relate to the strategy both currently and going forward will be those around measures of market capitalisation, profitability, investment in own IP, quality, efficiency and Frontier becoming a 'destination employer'

Going concern
The Group's forecasts for the intended development activity as adjusted for the successful raising of share capital on AIM, lead to a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future

Principal risks and uncertainties
The Group faces competitive and strategic risks that are inherent in a rapidly growing emerging market The Audit Committee maintains the Risk Register and escalates the key risks for further consideration at full Board level on a regular basis

Key business risks affecting the Group are set out below

Strategic focus
The Group is diversifying its business base to a balanced mix of technology, self-published and published-based revenue streams Inherently such a strategic shift of focus creates execution risk, whilst perhaps reducing financial risk based on a small customer base The Group is confident that it can deliver on both the technology and the commercial relationships that support this strategy and has taken initial steps to achieve this

Financial
The Group recognises that it is currently dependent on a small number of sources of revenue, and this has the potential to cause financial stress should these relationships break down The Group is also confident that if this were to happen it could undertake work for other customers whilst it builds up a diversified revenue base

Technology
The Group operates in a fast moving industry where monetisation strategies for video games and the associated technology platforms are evolving rapidly The ability to both forecast and monetise revenue streams is subject to a risk of uncertainty that may not cover development costs The Board believes that its design of its own technology and self-published games, ability to execute on high-end technology platforms and the flexibility demonstrated by the diverse range of video games we have successfully developed in the past mitigates some of this risk

Growth management
The Group's future success will depend on its ability to manage anticipated expansion This now includes the management of an overseas-based subsidiary and may include acquisitions Such expansion is expected to place demands on management and support functions If the Group is unable to manage its expansion effectively, its business and financial results could suffer In order to mitigate this risk, the Group is investing in suitable training for key staff and key internal systems The Group continues to seek to strengthen its Non-Executive Director base and has appointed key advisors with experience in the sector to ensure these risks are managed objectively

Attracting and retaining staff
The Group acknowledges that it is in a sector where world-class staff are in high demand The Group is undertaking a three-year programme of improving incentives and leadership skills which is intended to further enhance its attractiveness as an employer

Financial risk management objectives and policies
As part of its listing process the Group took the opportunity to review its financial environment and practises This led to improved corporate governance, financial policies and internal controls to manage financial risk and align financial measures with the strategic objectives it is committed to

Currency risk
Currency risk is managed by ensuring, where possible, that financial revenues and operating costs are denominated in £ Sterling or where sub-contract costs have been recharged, they have been recharged in the same currency The operating costs of the Canadian entity are matched to USD revenue flows where possible, as this exchange rate has been more stable than against £ Sterling

Liquidity risk
Liquidity risk is the risk arising from the Group not being able to meet its obligations as they fall due The Group seeks to manage this risk by ensuring sufficient liquidity is available to meet the foreseeable needs and to invest cash assets safely and profitably

The Group's policy throughout the year has been to place surplus funds on short-term treasury deposits based on its detailed cashflow forecasting The Group prudently manages its liquidity needs by carefully monitoring forecast cash inflows and outflows both in the short and medium term

The Admission to AIM and pre-IPO placing has strengthened the balance sheet and, combined with the £3 million revolving credit facility, has enabled the Group to resource an accelerated growth plan

Net cash requirements are compared to balances in order to determine headroom or any shortfalls This analysis shows that available cash is expected to be sufficient to continue to operate through the transition period

Share issues
Details of the shares issued during the year are detailed in Note 16 to the financial statements The Company has one class of ordinary share which carries no right to fixed income Each share carries the right to one vote at general meetings of the Company

Directors
The Directors who held office at 31 May 2013 and their interest in the share capital of the Company, as restated for the re-denomination in December 2012 were as follows

Name	2013	2012
David Gammon	**224,720**	224,720
David Braben	**17,494,380**	17,662,920
David Walsh*	**1,245,820**	1,000,000
Jonathan Watts	**32,000**	32,000
Jonathan Milner* (appointed 1 November 2012)	**572,104**	—
Jonathan Roach (resigned 3 September 2012)	—	648,000
Total	**19,569,024**	19,680,000

*Including direct family holdings

Directors' remuneration and share options
Details of Directors' remuneration and share options are provided within the Remuneration Report and are in addition to the interests in shares shown above

During the year David Braben sold 168,540 shares and David Walsh sold 56,180 shares to Jonathan Milner, realising gains of £149,832 and £21,910 before tax respectively

David Walsh exercised 302,000 (re-denominated) share options granted in November 2002 at a restated exercise price of 33 pence

Directors' responsibilities for the financial statements
The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare such financial statements for each financial year Under that law, the Directors have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and of the profit or loss of the Company for that year In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether the applicable IFRSs have been followed, subject to any material departures disclosed and explained in the Company's financial statements, and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

REPORT OF THE DIRECTORS

for the year ended 31 May 2013 continued

Directors' responsibilities for the financial statements continued

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors confirm that

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Directors have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Directors' indemnity arrangements

During the year the Company purchased directors' and officers' liability insurance in respect of itself and its Directors

Intellectual property and research and development

The Group actively protects its intellectual property via trademark registrations Whilst the Directors consider these to be of significant value, the costs associated with registrations are expensed

The Group invests heavily in research and development through the COBRA engine and associated development tools Costs that meet the criteria for capitalisation are included in intangible assets (see Note 7 of the financial statements) The Group's total spend in research and development to support its strategy was £1 36 million in the year (2012 £1 05 million)

Employee involvement

The Group seeks to encourage and promote an agile, open, fair and meritocratic culture of engagement, achievement and fun

The Group is committed to the principle of equal opportunities in employment Its aim is to ensure that no job applicant or employee receives less favourable treatment or is placed at a disadvantage by requirements or conditions that cannot be shown to be justifiable and thereby promote equality of opportunity for employment within the Group on grounds such as sex, disability, marital status, religion, colour, race, nationality, ethnic or national grounds, age or sexual orientation

The Group's policies and procedures are created and administered in such a way that they do not tolerate or foster such discrimination

The Group has an Employee Consultation group that meets regularly with senior management

The Group encourages employee involvement in the Group's performance by using a contractual bonus scheme for all non-Director level staff In addition it seeks to issue share options at relevant times

Employment policies

The Group is committed to following UK employment law for its Cambridge-based operations and the Canada Labour Code for its Halifax, Nova Scotia, operation Where possible the Group strives for similar employment and benefit arrangements between territories

Health and safety and environment

The aim of the Directors is to provide healthy, safe and congenial working conditions, equipment and systems of work for all employees

The Directors further intend to provide sufficient information, training and supervision to enable employees to do their work safely, effectively and without risk to themselves or to others

We acknowledge that we are responsible for the safety of visitors, both professional and social, who enter the premises

Frontier Developments plc recognises its duty to comply and operate within the requirements of statutory environmental legislation and is committed to minimising the environmental impacts of its business operations The Directors of the Group will support this policy with this commitment in mind

Substantial shareholders

At 12 November 2013 the following, other than the Directors whose shareholdings are listed on page 17, had notified the Company of disclosable interests in 3% or more of the nominal value of Frontier Developments plc of 0 5 pence each

Name	Shareholding	%
Chris Sawyer	2,565,726	8 2%
Lansdowne Partners	2,362,204	7 6%
Amati Venture Capital	1,042,150	3 3%

Payment policy and practice
The Group's policy concerning the payment of suppliers is to agree terms of payment at the start of business with each supplier The Group's normal policy is to pay supplier invoices in accordance with those terms and conditions provided there are no disputes At 31 May 2013 the Company had an average of 42 days' purchases outstanding (2012 3 days') The variation in days outstanding is a function of the amount of sub-contract work being undertaken for projects and, in 2013, funding fees associated with the IPO

Donations and community support
The Group made charitable donations during the year of £4,560 (2012 £500) to various educational establishments There were no donations to political parties Employees of the Company participate actively in the community of entrepreneurial businesses clustered around Cambridge

Senior employees of the Company have been involved closely with the Raspberry Pi foundation, and the majority of charitable donations comprise the provision of Raspberry Pi devices to educational establishments

Post-balance sheet event
On 15 July 2013 the holding company listed on AIM

Auditor
A resolution to re-appoint Grant Thornton UK LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting In accordance with normal practice, the Directors will be authorised to determine the Auditor's remuneration

Approved by the Board of Directors and signed on behalf of the Board

Neil Armstrong
Company Secretary
13 November 2013

CORPORATE GOVERNANCE REPORT

for the year ended 31 May 2013

The Board
The Board of Frontier Developments plc is responsible for the long-term financial success of the business The Directors recognise the value and importance of high standards of corporate governance and observe the requirements of the UK Corporate Governance Code (even though it does not apply to AIM listed companies) to the extent they consider appropriate in light of the Company's size, stage of development and resources

The following statements set out the principles and methods to which it adheres The Statement of Directors' Responsibilities is set out on pages 17 and 18

Board meetings and practices
The Board seeks to meet formally at least eleven times a year including two 'offsite' strategic review days All members of the Board are invited to attend all meetings

The Chairman and the Company Secretary plan the agenda for each Board meeting in consultation with all other Directors That agenda is issued with supporting papers ahead of the Board meetings providing the appropriate information required to enable the Board to discharge its duties

The matters reserved for the attention of the Board include

- overall business strategy of the Group,
- review of key operational and commercial matters,
- review of key finance matters, including approval of financial plans, changes to capital structure, acquisitions and disposals of businesses and material capital expenditure, and dividends,
- governance Board membership and powers including the appointment and removal of Board members, set up and delegation of matters to appropriate Committees, and the reviewing of reporting back thereof,
- approval of financial statements both interim and year end,
- stock exchange related issues including the approval of communications to the stock exchange and communications with shareholders in conjunction with the financial public relations firm (College Hill),
- subsidiary Board appointments, as the 100% shareholder, and review of key decisions at their Board meetings,
- approval of acquisitions, disposals, borrowing facilities, premises and matters proposed by the corporate lawyer (Bird and Bird) and investment advisor (Canaccord Genuity), and
- appointment and performance review of key advisors

Board composition
The Board of Frontier Developments plc comprises the Non-Executive Chairman, the Chief Executive Officer and two other Executive officers, the Company Secretary and one further Non-Executive Director As can be deduced from the individual biographies, the Directors have a range of experience and provide a balance of skills, experience and knowledge to the Board

All Directors are subject to election at the first Annual General Meeting following their appointment and to re-election thereafter at intervals of no more than four years

Board Committees
Audit Committee
The Audit Committee determines the terms of engagement of the Company's auditor and, in consultation with the Company's auditor, the scope of the audit It will receive and review reports from management and the Company's auditor relating to the interim and annual accounts and the accounting and internal control systems in use by the Company and Group The Audit Committee has unrestricted access to the Company's auditor The Audit Committee also reviews accounting and treasury policies, financial reporting including key performance indicators and supporting key areas of management judgements, the corporate Risk Register, and corporate governance standards The Audit Committee is open to attendance by any Director, and reports its key issues at Board meetings

The Audit Committee comprises David Gammon and Neil Armstrong, supported by James Dixon (one of the senior operation managers) and Amanda Heslam (the Group's management accountant)

Remuneration Committee
The Remuneration Committee reviews the scale and structure of the Executive Directors' future remuneration and the terms of the service agreements with due regard to the interests of shareholders No Director is permitted to participate in discussions or decisions concerning their own remuneration The Remuneration Committee also approves annual salary review limits, bonus schemes and payment limits, and significant employee benefits, such as pension and share option schemes

The Remuneration Committee comprises David Gammon, David Walsh and Jonathan Milner, supported by Neil Armstrong

Nominations Committee
The Nominations Committee reviews the constituents of the Board and its committees to ensure appropriate balance representation

The Nominations Committee comprises David Gammon and David Braben, supported by Neil Armstrong

Company Secretary
The role of the Company Secretary is to ensure reliable and regular information flows to the Board and its committees and to ensure applicable rules and regulations are followed The Company Secretary is available to all Directors to provide advice and assistance and is responsible for providing governance advice to the Board

Auditor independence
The external audit function provides independent review and audit It is the responsibility of the Audit Committee to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements and to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance

Senior management and Group functions
The Executive Directors are supported by a number of senior managers, however the close involvement of the Executive Directors in the day-to-day activities of the business at the present time negates the need for a formal Executive Team

The Group maintains central finance, HR, IT and marketing functions to support the Group's activities, reporting to the Executive Team

Internal control and assessment of business risk
The Board took the opportunity to fully review the Group's policies and procedures for internal controls to ensure an appropriate framework under which the business can operate and in line with regulations as part of its Admission to AIM

The systems for internal control and risk management processes are designed to manage rather than eliminate risk of the achievement of strategic objectives Such systems can only provide a reasonable but not absolute level of assurance against material misstatement or loss

A risk assessment process is embedded within the project and administrative process within the Group The strategic risks are regularly reviewed by the Board, under the guidance of the Audit Committee A Risk Register is maintained to review key risks and the related controls and mitigation plans

Control environment and internal audit
The Group has established operating procedures appropriate to its size and structure for reporting financial and non-financial information to the Board

These include, but are not limited to

- operating guidelines and procedures with approval limits,
- accounting policies, controls and procedures,
- performance monitoring systems updated monthly for review at Board meetings, and
- regulatory and legal changes that may materially impact on the business

Due to the Executive Directors' close involvement in the business activities, the Group does not currently believe that an internal audit function would be cost effective The Audit Committee reviews this position on a regular basis

Investor relations
The Directors, together with the Group's advisors, are preparing to hold meetings and discussions with key institutional shareholders, ensuring clarity around the Group's strategic intent The Group intends to use the Annual General Meeting to encourage attendance and participation by shareholders

REMUNERATION REPORT

for the year ended 31 May 2013

As Frontier Developments is an AIM-listed company it is not required to disclose all the information in the Remuneration Report, however, in the interests of transparency the Board has chosen to provide the following details as a voluntary disclosure The auditor is not required and has not, except where indicated, audited the information included in the Remuneration Report

The Remuneration Committee is responsible to the Board for developing remuneration policy The Report of the Remuneration Committee has been approved by the Board of Directors for submission for shareholders' approval at the Annual General Meeting

Remuneration Committee terms of reference
The Remuneration Committee comprises both Non-Executive Directors of the Company and the Chief Operations Officer, supported by the Company Secretary The Remuneration Committee meets at least twice a year

The Remuneration Committee is responsible for the following functions

- setting of remuneration for Directors and senior managers, including pay, bonuses and long-term incentive arrangements,
- approval of the overall increase for annual pay and bonus levels for all other staff,
- approval of share option plans or arrangements,
- setting of overall share option issues,
- approval of any significant employee benefit arrangements, and
- reviewing the Committee's terms of reference and submitting to the Board for subsequent approval

Remuneration policy
The Remuneration Committee approved the following policy

"Frontier endeavours to pay salaries and benefits around the median level for relevant skills Where there is a material gap in remuneration, it is the policy of the Group to close this over time and subject to affordability"

As part of the Group's Admission to AIM the Remuneration Committee, along with its legal advisors, implemented new service agreements to take effect from 1 July 2013 In doing so and in recognition of the higher public profile the Committee reviewed the 'AIM Directors' Pay 2013' report published by Growth Company Investor, and identified a significant gap between Directors' actual pay to the policy intent

The Remuneration Committee has set out to move to a median level of pay over a four to five-year period In addition the Remuneration Committee aims to bring incentives in to place that align the Group's strategic objectives and investor interests with a large element of the total remuneration package

Components of Executive Directors' remuneration
Overview
The remuneration policy is to maintain an appropriate balance between fixed elements of remuneration and performance related elements, with an increasing proportion of the latter

Directors and staff are all encouraged to acquire shares in the Company and to hold these shares for the long term This participatory element is an important aspect of the Group's culture and its focus on long-term performance

As part of the changes the Remuneration Committee has plans to adopt the following

- a move to median level pay over an affordable period of time,
- the set up of a new Executive share option scheme,
- the set up of a 'stretch goal' based bonus scheme, and
- pension provision in line with the Group's auto enrolment plans

Components of remuneration package
Service contracts
The service agreements adopted on 1 July 2013 for the Executive Directors can be terminated by either party provided at least six months' notice has been given

Basic pay
Salaries were reviewed on 1 July 2013 upon the take up of new service agreements, required prior to Admission on AIM The intention is to subsequently review these annually on 1 August in line with all staff

Annual bonus
The bonus payment for the year to May 2013 will be discretionary up to 8% of basic pay, from that point a new scheme based on stretch goals and limited to 21% of pay will be adopted The bonus scheme is subject to affordability

Share options
The Enterprise Management Initiative Scheme is being replaced by a revised Company Share Option Plan which will be available to Executive Directors until such time as a longer-term executive arrangement can be put in place

Pension contributions and life cover
The intention of the Committee is to place the Executive Directors under the proposed Group's scheme for pension auto enrolment and life cover arrangements

Non-Executive Directors' remuneration
The remuneration of Non-Executive Directors is determined by the Board and reflects their anticipated time commitment to fulfil their duties The Non-Executive Directors' remuneration is subject to the same principles of the remuneration policy for the Group and is in a transitional phase of alignment to median market rates The letters of appointment of Non-Executive Directors can be terminated with six months' notice for the Chairman and three months' for all other Non-Executives under notice given by either party

Directors' remuneration (audited)
The remuneration of the Directors is as follows

Current Directors	Salary/fee £'000	Bonus £'000	**2013 Total £'000**	2012 Total £'000
Executive				
David Braben	93	—	**93**	80
David Walsh	93	—	**93**	80
Jonathan Watts	95	4	**99**	78
Non-Executive				
David Gammon	24	—	**24**	8
Jonathan Milner	14	—	**14**	—
Total	319	4	**323**	246

Jonathan Roach received £20,000 salary during the period that he was a Director in 2013 (2012 £81,000)

Share options (re-denominated where appropriate)

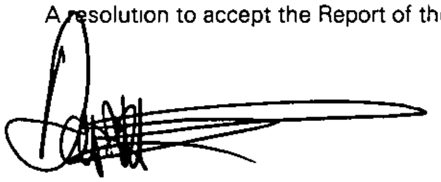
	Granted	Number of options	Performance criteria	Exercise price	Exercise period
David Walsh	30 Jul 2012	20,000	No	89 pence	31 Jul 2013 to 30 Jul 2022
	15 May 2013	180,000	No	95 pence	16 May 2014 to 15 May 2023
Jonathan Watts	6 Dec 2005*	60,000	No	67 pence	7 Dec 2006 to 6 Dec 2015
	30 Jul 2012	140,000	No	89 pence	31 Jul 2013 to 30 Jul 2022

*Re-denominated in December 2012

The expense recognised in the Statement of Comprehensive Income for the Directors' share options was £45,302 (2012 £nil) with the amount attributable to the highest paid Director being £34,586 (2012 £nil)

During the year, David Walsh exercised 302,000 share options (re-denominated) at the corresponding restated price of 33 pence each

A resolution to accept the Report of the Remuneration Committee will be put to shareholders at the Annual General Meeting



David Gammon
Chairman, Remuneration Committee
13 November 2013

INDEPENDENT AUDITOR'S REPORT

to the members of Frontier Developments plc (Registered No 02892559)

We have audited the consolidated financial statements of Frontier Developments plc for the year ended 31 May 2013 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and company statement of financial position, consolidated and company statement of cashflows, consolidated and company statement of changes in equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective Responsibilities of Directors and Auditor
As explained more fully in the Directors' Responsibilities Statement set out on pages 17 and 18, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the Audit of the Financial Statements
A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on Financial Statements
In our opinion

- The financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 May 2013 and of the Group's profit for the year then ended,
- The Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union
- The parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006 and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on Other Matter Prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the Company financial statements are prepared is consistent with the Company financial statements

Matters on which we are required to Report by Exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branched not visited by us, or
- The parent company financial statements are not in agreement with the accounting records and returns, or
- Certain disclosures of directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit

Grant Thornton UK LLP

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP, Statutory Auditor, Chartered Accountants, Cambridge
13 November 2013

CONSOLIDATED INCOME STATEMENT

for the year ended 31 May 2013

	Notes	31 May 2013 £'000	31 May 2012 £ 000
Revenue	5	**12,072**	14,157
Cost of sales		**(8,375)**	(11,259)
Gross profit		**3,697**	2,898
Administrative expenses		**(2,645)**	(1,508)
Operating profit		**1,052**	1,390
Finance income	21	**19**	10
Profit before tax	6	**1,071**	1,400
Income tax	22	**(26)**	(2)
Profit for the period		**1,045**	1,398

All the activities of the Group are classified as continuing

Earnings per share	23		
Basic earnings per share		**4 2p**	5 7p
Diluted earnings per share		**4 1p**	5 5p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 May 2013

	31 May 2013 £'000	31 May 2012 £ 000
Profit for the period	**1,045**	1,398
Other comprehensive income		
Items that will be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	**3**	—
Total comprehensive income for the period attributable to the owners of the Group	**1,048**	1,398

The accompanying accounting policies and notes form part of this financial information

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 May 2013 (Registered No 02892559)

	Notes	31 May 2013 £'000	31 May 2012 £ 000
Non-current assets			
Intangible assets	7	**3,450**	3,331
Property, plant and equipment	9	**299**	185
Total non-current assets		**3,749**	3,516
Current assets			
Inventories	13	**–**	75
Trade and other receivables	14	**2,082**	2,505
Total cash and cash equivalents	15	**7,155**	1,686
Total current assets		**9,237**	4,266
Total assets		**12,986**	7,782
Equity and liabilities			
Equity			
Share capital	16	**127**	12
Share premium account		**1,847**	1,794
Option reserve		**643**	263
Foreign exchange reserve		**3**	—
Retained earnings		**5,775**	4,694
Total equity		**8,395**	6,763
Liabilities			
Current			
Trade and other payables	19	**3,060**	867
Current tax liabilities		**33**	2
Total current liabilities		**3,093**	869
Non-current			
Provisions	20	**187**	150
Deferred income	19	**1,283**	—
Deferred tax	12	**28**	—
Total non-current liabilities		**1,498**	150
Total liabilities		**4,591**	1,019
Total equity and liabilities		**12,986**	7,782

These financial statements were approved by the Directors on 13 November 2013 and signed on their behalf by

David Braben
Director
The accompanying accounting policies and notes form part of this financial information

COMPANY STATEMENT OF FINANCIAL POSITION

for the year ended 31 May 2013 (Registered No 02892559)

	Notes	31 May 2013 £'000	31 May 2012 £ 000
Non-current assets			
Intangible assets	7	**3,450**	3,331
Investment in subsidiary undertaking	8	**—**	—
Property, plant and equipment	9	**227**	185
Total non-current assets		**3,677**	3,516
Current assets			
Inventories	13	**—**	75
Trade and other receivables	14	**2,237**	2,505
Total cash and cash equivalents	15	**6,819**	1,686
Total current assets		**9,056**	4,266
Total assets		**12,733**	7,782
Equity and liabilities			
Equity			
Share capital	16	**127**	12
Share premium account		**1,847**	1,794
Option reserve		**630**	263
Retained earnings		**5,648**	4,694
Total equity		**8,252**	6,763
Liabilities			
Current			
Trade and other payables	19	**3,010**	867
Current tax liabilities		**1**	2
Total current liabilities		**3,011**	869
Non-current			
Provisions	20	**187**	150
Deferred income	19	**1,283**	—
Total non-current liabilities		**1,470**	150
Total liabilities		**4,481**	1,019
Total equity and liabilities		**12,733**	7,782

These financial statements were approved by the Directors on 13 November 2013 and signed on their behalf by

David Braben
Director

The accompanying accounting policies and notes form part of this financial information

CONSOLIDATED STATEMENT OF CASHFLOWS

for the year ended 31 May 2013

	Notes	31 May 2013 £'000	31 May 2012 £'000
Operating activities			
Profit after tax		**1,045**	1,398
Adjustments	24	**2,198**	1,829
Net changes in working capital	24	**2,923**	(1,174)
Taxes (paid)/received		**(5)**	12
Cashflow from operating activities		**6,161**	2,065
Investing activities			
Purchase of property, plant and equipment		**(251)**	(28)
Expenditure on intangible assets		**(1,783)**	(1,433)
Interest received		**19**	10
Cashflow from investing activities		**(2,015)**	(1,451)
Financing activities			
Proceeds from convertible loan notes		**1,129**	—
Proceeds from issue of share capital		**168**	—
Cashflow from financing activities		**1,297**	—
Net change in cash and cash equivalents from continuing operations		**5,443**	614
Cash and cash equivalents at beginning of period		**1,686**	1,064
Exchange differences on cash and cash equivalents		**26**	8
Cash and cash equivalents at end of period		**7,155**	1,686

The accompanying accounting policies and notes form part of this financial information

COMPANY STATEMENT OF CASHFLOWS

for the year ended 31 May 2013

	Notes	31 May 2013 £'000	31 May 2012 £'000
Operating activities			
Profit after tax		**918**	1,398
Adjustments	24	**2,124**	1,829
Net changes in working capital	24	**2,677**	(1,174)
Taxes (paid)/received		**(5)**	12
Cashflow from operating activities		**5,714**	2,065
Investing activities			
Purchase of property, plant and equipment		**(148)**	(28)
Expenditure on intangible assets		**(1,783)**	(1,433)
Interest received		**19**	10
Cashflow from investing activities		**(1,912)**	(1,451)
Financing activities			
Proceeds from convertible loan notes		**1,129**	—
Proceeds from issue of share capital		**168**	—
Cashflow from financing activities		**1,297**	—
Net change in cash and cash equivalents from continuing operations		**5,099**	614
Cash and cash equivalents at beginning of period		**1,686**	1,064
Exchange differences on cash and cash equivalents		**34**	8
Cash and cash equivalents at end of period		**6,819**	1,686

The accompanying accounting policies and notes form part of this financial information

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 May 2013

	Share capital £ 000	Share premium account £ 000	Option reserve £ 000	Foreign exchange reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 31 May 2011	12	1,794	364	—	3,195	5,365
Share-based payment transfer	—	—	(101)	—	101	—
Transactions with owners	—	—	(101)	—	101	—
Profit for the year	—	—	—	—	1,398	1,398
Total comprehensive income for the year	—	—	—	—	1,398	1,398
At 31 May 2012	12	1,794	263	—	4,694	6,763
Increase in equity in relation to options issued	—	—	416	—	—	416
Share-based payment transfer	—	—	(36)	—	36	—
Issue of share capital	1	167	—	—	—	168
Re-denomination of share capital	114	(114)	—	—	—	—
Transactions with owners	115	53	380	—	36	584
Profit for the year	—	—	—	—	1,045	1,045
Other comprehensive income						
Exchange differences on translation of foreign operations	—	—	—	3	—	3
Total comprehensive income for the year	—	—	—	3	1,045	1,048
At 31 May 2013	**127**	**1,847**	**643**	**3**	**5,775**	**8,395**

The accompanying accounting policies and notes form part of this financial information

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 May 2013

	Share capital £'000	Share premium account £'000	Option reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2011	12	1,794	364	3,195	5,365
Share-based payment transfer	—	—	(101)	101	—
Transactions with owners	—	—	(101)	101	—
Profit for the year	—	—	—	1,398	1,398
Total comprehensive income for the year	—	—	—	1,398	1,398
At 31 May 2012	12	1,794	263	4,694	6,763
Increase in equity in relation to options issued	—	—	403	—	403
Share-based payment transfer	—	—	(36)	36	—
Issue of share capital	1	167	—	—	168
Re-denomination of share capital	114	(114)	—	—	—
Transactions with owners	115	53	367	36	571
Profit for the year	—	—	—	918	918
Total comprehensive income for the year	—	—	—	918	918
At 31 May 2013	**127**	**1,847**	**630**	**5,648**	**8,252**

The accompanying accounting policies and notes form part of this financial information

NOTES TO THE FINANCIAL STATEMENTS

1 Corporate information
Frontier Developments plc ("the Group") develops non-game applications and video games for the interactive entertainment sector The Company is a public limited company and is incorporated and domiciled in the United Kingdom

The address of its registered office is 306 Science Park, Milton Road, Cambridge CB4 0WG

The Group's operations are based in the UK and a subsidiary, Frontier Developments Inc, based in Canada

2 Basis of preparation and statement of compliance
The principal accounting policies applied in the preparation of this financial information are set out below These policies have been consistently applied to all the periods presented, unless otherwise stated

Basis of preparation
The financial information of Frontier Developments plc has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS

The financial information has been prepared under the historical cost convention The financial information is presented in Sterling, the presentation currency for the Group, and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated

The preparation of this financial information requires the Directors to make critical accounting estimates and judgements that affect the amounts reported in the financial statements and accompanying notes The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4

Going concern basis
The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this financial information The Group therefore continues to adopt the going concern basis in preparing its financial statements The Group has acquired the resources via its flotation on AIM and revolving credit facility to support an accelerated growth plan for the business

3 Principal accounting policies
Basis of consolidation and business combinations
Basis of consolidation
The consolidated financial statements incorporate those of the Group and all entities controlled by it, after eliminating internal transactions Control is achieved where the Group has the power to control the financial and operating policies through its share ownership Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group The entities' results are adjusted, where appropriate, to conform to Group accounting policies

a) Business combinations
Business combinations are accounted for using the acquisition method under the revised IFRS 3 "Business Combinations" (IFRS 3R) The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair value of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration agreement Acquisition costs are expensed as incurred

The Group recognises identifiable assets acquired and liabilities assumed, including contingent liabilities, in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values

Goodwill is stated after separate recognition of identifiable intangible assets It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i e gain on a bargain purchase) is recognised in profit or loss immediately

3 Principal accounting policies continued

b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss Depreciation is charged to the income statement so as to write off the cost less estimated residual values over their expected useful lives on a straight line basis over the following periods

Fixtures and fittings	5 years
Computer equipment	2½ years – 5 years
Leasehold improvements	Length of the lease

Residual values and useful economic lives are assessed annually The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in administrative expenses

As a result of the review of useful economic lives an additional amortisation charge of £nil was made in the period to 31 May 2013 (31 May 2012 £85,720)

c) Intangible assets

Intangible assets are measured at historic cost and are amortised on a straight line basis over their expected useful economic life They comprise three elements

- development tools,
- software (self-published games), and
- software (third party)

An internally generated intangible asset arising from the Group's development activities is recognised only if all of the following conditions are met

- completion of the intangible asset is technically feasible so that it will be available for use in developing games (in respect of development tools) or for sale of games (in respect of self-published software),
- the Group intends to complete the intangible asset and has the ability to use or licence it as indicated above, thus generating probable future economic benefits,
- the expenditure attributable to the intangible asset during its development, mainly salary costs, can be measured reliably, and
- the Group has adequate technical, financial and other resources to complete the development and to use or sell the intangible asset

Internally generated intangible assets, consisting of direct labour costs, other specific direct project costs and attributable project support costs, are amortised on a straight line basis over their useful economic lives The estimated useful lives of current development projects are between two and five years Until completion the assets are subject to annual impairment testing Amortisation commences upon completion of the asset and is shown within cost of sales in the income statement

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred

d) Research activities

Expenditure on research activities is recognised as an expense in the period in which it is incurred

e) Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and individual intangible assets for any indication that these assets have suffered an impairment loss Until the internally generated intangible assets are available for use when amortisation can be charged, the assets are subject to an annual impairment test Intangible assets already being amortised are also reviewed for any indication that the asset has suffered an impairment If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any The recoverable amount is the higher of the fair value less costs to sell and value in use

Fair value in use is measured for self-published games by discounting future cashflows For all other assets a review of the expected useful economic life is undertaken and compared to that implied in the amortisation rate

NOTES TO THE FINANCIAL STATEMENTS
continued

3 Principal accounting policies continued

f) Inventories

Inventories are stated at the lower of cost and net realisable value Cost is based on the total accumulated project cost less the amount expensed as cost of sales, being an allocation to match sales revenue, subject to an economic benefit test of milestone delivery for long-term contracts Economic benefit tests are measured by reference to contractual terms such as acceptance and approval of a milestone by the customer Net realisable value is based on estimated selling value less additional cost to completion and distribution Provisions are made for obsolete or defective elements (which do not meet quality criteria and have to be replaced in full) of cost where appropriate and are recognised as an expense in the period in which the write down or loss occurs

g) Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its financial liabilities Equity instruments do not include a contractual obligation to deliver cash or other financial assets to another entity Any instrument that does have the obligation to deliver cash or another financial asset to another entity is classified as a financial liability

Financial liabilities are presented under liabilities on the statement of financial position

Financial assets

Financial assets comprise assets trade receivables, other receivables and cash and cash equivalents

Trade and other receivables are recognised initially at fair value and measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment Any change in their value through impairment or reversal of impairment is recognised in the income statement

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables The amount of the write down is determined as the difference between the assets carrying amount and the present value of estimated future cashflows discounted at the original effective interest rate

Financial liabilities

The Group's financial liabilities include trade and other payables and convertible loan notes

Financial liabilities are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method, except for financial liabilities designated at fair value through profit and loss (FVTPL) All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL

The convertible loan notes issued in the year are recognised as financial liabilities rather than equity as their characteristics are more akin to debt rather than equity

Share capital and reserves

Share capital represents the nominal value of the shares that have been issued

Share premium – Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue

Option reserve – This reserve represents equity-settled share-based employee remuneration until such share options are exercised

Foreign exchange reserve – This represents the exchange difference on consolidation of overseas subsidiaries

Retained earnings – Retained earnings include all current and prior period retained earnings

h) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank deposits available on demand

i) Income taxes

Income tax expense comprises the current and deferred tax

Current income tax liabilities comprise those obligations to fiscal authorities relating to the current or prior reporting period that are unpaid at the statement of financial position date They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement, except where it relates to items outside profit or loss Tax relating to items in other comprehensive income is recognised in other comprehensive income and tax relating to items directly in equity is recognised directly in equity

3 Principal accounting policies continued

i) Income taxes continued

Deferred income taxes are calculated using the liability method on temporary differences This involves the comparison of the carrying amounts of assets and liabilities in the financial statements with their respective tax bases In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets However, deferred tax is not provided on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit

Deferred tax liabilities are always provided in full Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date

Deferred tax is recognised as a component of tax expense in the income statement Deferred tax relating to items directly in equity is recognised directly in equity and deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income

j) Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the income statement net of any incentives received from the lessor on a straight line basis over the period of the lease

k) Revenue recognition

Revenue represents amounts derived from the design, production and sale of computer games software and related technology which fall within the Group's ordinary activities, exclusive of value added tax and other similar sales taxes Revenue is measured by reference to the fair value of consideration received or receivable

Revenue includes income from the design and production of computer software contracted for customers, royalties from published games, income from the release of self-published games, and crowd-sourced funding pledges

Revenues on project contracts are mapped against the expected profile of costs In most circumstances these are closely correlated

Where there is close correlation between the revenue and cost profile, the milestones within the project contracts are considered to approximate the stage of completion of the obligations under the contract and therefore recognition of revenue based on these milestones provides a sufficiently accurate approximation of recognition of revenue on a stage of completion basis, except for where there are significant acceptance requirements Under such arrangements, revenue is recognised when the Group has substantially met all its performance obligations and the customer has approved the relevant milestone

Where there is less correlation between the revenue and cost profile, revenue from customer specific contracts are recognised on the stage of completion of each assignment (milestone) at the period end date compared to the total estimated service based on the estimate of labour and other costs to be provided over the entire contract where the outcome can be estimated reliably If a contract outcome cannot be estimated reliably, revenues are recognised equal to costs incurred, to the extent that costs are expected to be recovered An expected loss on a contract is recognised immediately in the income statement

Additionally project contracts may contain provision for the pass-through of subcontract costs, these are recharged on a matching basis in the same period as the underlying cost

Revenue earned from royalties under distribution agreements are recognised in the period that the sales to the end customer are made, estimated on an accruals basis as royalty reports are generally per calendar quarter

Revenue from released self-published titles is recognised on download of the game or part thereof (micro transaction) from the sales channel and/or distribution platform

Revenue from crowd-funding for self-published titles is normally recognised when the Group meets its performance obligations Where there is no clear performance obligation, for example, membership of a development forum, this is taken as revenue over the expected development period of the game on a straight line basis

l) Employee benefits

All accumulating employee compensated absences that are unused at the balance sheet date are recognised as a liability

The Group does not generally operate any pension scheme for its employees, beyond providing access to an 'employee contribution only' stakeholder scheme There was, however, a small defined contribution pension contribution for an employee, which finished in the period to 31 May 2012 Payments to defined contribution retirement benefit schemes are charged as an expense in the period to which they relate

NOTES TO THE FINANCIAL STATEMENTS

continued

3 Principal accounting policies continued

m) Share-based payment transactions

Share options are periodically granted to staff Share options are measured at fair value at the date of issue and recognised over the vesting period of the option Fair value is measured using the Black-Scholes option pricing model The expected life used in the model is the expiry date of the options prior to any public listing The share-based payment is recognised as an expense in profit or loss, together with a corresponding credit to a share-based payment reserve in equity This expense is recognised on a straight line basis based on the Group's estimate of the number of shares that will vest Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates Any cumulative adjustment prior to vesting is recognised in the current period No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting Upon exercise of share options, the proceeds received up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium

n) Foreign currencies

Transactions denominated in a foreign currency are translated at the rate of exchange ruling at a month end rate in order to approximate to actual rate for the relevant transaction date Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date

Foreign exchange differences are charged to the income statement in the period in which they arise

The assets and liabilities in the financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the statement of financial position date Income and expenses are translated at the actual exchange rate The exchange differences arising from the re-translation of the opening net investment in subsidiaries are recognised in other comprehensive income and are accumulated in the foreign currency reserve in equity On disposal of a foreign operation, the cumulative translation differences are transferred to the profit and loss as a reclassification adjustment as part of the gain or loss on disposal

o) Segment reporting

The Group identifies only one operating segment as the business is managed as a whole For management purposes the chief operating decision maker reviews the financial information which is consistent with that reported in its financial statements, with financial performance measured on the basis of earnings before interest, tax, depreciation and amortisation Assets are not directly attributable to any separable activity

p) Provisions

Provisions for dilapidations are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably Timing or amount of the outflow may be uncertain

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation

q) Standards and interpretations not yet applied

The following new standards, which are yet to become mandatory, have not been applied in the financial statements

- IFRS 9 "Financial Instruments" (effective 1 January 2015)
- IFRS 10 "Consolidated Financial Statements" (effective 1 January 2014)
- IFRS 11 "Joint Arrangements" (effective 1 January 2014)
- IFRS 12 "Disclosure of Interests in Other Entities" (effective 1 January 2014)
- IFRS 13 "Fair Value Measurement" (effective 1 January 2013)
- IAS 27 (Revised) "Separate Financial Statements" (effective 1 January 2014)
- IAS 28 (Revised) "Investments in Associates and Joint Ventures" (effective 1 January 2014)

Based on the Group's current business model and accounting policies, management does not expect material impacts on the financial information when the standards become effective The Group does not intend to apply these pronouncements early

4. Significant accounting estimates and key judgements

The key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

a) Intangible assets

The Group invests heavily in research and development The identification of development costs that meet the criteria for capitalisation is dependent on management's judgement and knowledge of the work done Development costs of software tools within a project that can be utilised generically are separately identified Judgements are based on the information available at each period end Economic success of any development is assessed on a reasonable basis but remains uncertain at the time of recognition as it may be subject to future technical problems and therefore a review for indicators of impairment is completed by product at each period end date The net book values of the Group and Company intangible assets at 31 May 2013 are £3,449,515 (2012 £3,331,253)

Intangible assets are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, for example, a decision to suspend a self-published title under development

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell and value in use For the purposes of assessing impairment, assets are reviewed by project for which there are separately identifiable cashflows

Games developed to be self-published are reviewed for impairment based on the status at the end of each financial year and at the half year against a prudent level of the projected net earnings

b) Trade receivables and recovery of work in progress

Trade receivables are stated net of any impairment for bad and doubtful debts, based on the Group's best estimate of the likelihood of recovery on a specific basis Recovery of work in progress is dependent on the successful completion of projects Judgement is therefore needed to be applied for projects which are in progress regarding the ability of the Group to complete and deliver the project in accordance with contractual terms

c) Deferred tax

A deferred tax asset is recognised where the Group considers it probable that future tax profits will be available against which the tax credit will be utilised in the future This specifically applies to tax losses and to outstanding vested share options at the statement of financial position date In estimating the amount of the deferred tax asset that should be recognised, the Directors make judgements based on current forecasts about the amount of future taxable profits and the timings of when these will be realised A deferred tax asset is currently not being recognised in full due to the unpredictability of future taxable trading profits

d) Revenue recognition

Significant management judgement is applied in determining the allocation and timing of the recognition of revenue on contracts In this process management takes into account milestones, actual work performed and further obligations and costs expected to complete the work Management monitors the progress and has regular dialogue with customers to confirm the project status

5 Segment information

The Group identifies operating segments based on internal management reporting that is regularly reviewed by the chief operating decision maker and reported to the Board The chief operating decision maker is the Chief Executive Officer

Management information is reported as a single operating segment being the design and production of computer software irrespective of platform or route to market Resources are managed on the basis of the Group as a whole

The Group's revenues from external customers are divided into the following geographical areas

	31 May 2013 £'000	31 May 2012 £ 000
United Kingdom (country of domicile)	**113**	29
United States of America	**11,684**	13,905
Rest of the world	**275**	223
	12,072	14,157

At 31 May 2013 £72,574 of non-current assets are based in Canada, with the remainder in the UK Up until August 2012 all non-current assets were based in the UK

In 2013 and 2012 periods there was one customer whose revenue accounted for more than 10% of the Group and Company's total revenue The customer is based in the United States of America and totals 94% (2012 95%) of the annual revenue

All material revenue is categorised as either 'self-published', 'publishing' or royalties The majority of the revenue is services provided, however, a small proportion of the 2012/13 revenue was for goods provided

NOTES TO THE FINANCIAL STATEMENTS

continued

5 Segment Information continued

	31 May 2013 £'000	31 May 2012 £'000
Publishing	**11,355**	13,499
Self-published	**511**	323
Royalties	**203**	335
Other	**3**	—
	12,072	14,157

EBITDA before material exceptional items is a key performance indicator for the Group and is also used by the Chief Executive Officer and is calculated as follows

	31 May 2013 £'000	31 May 2012 £'000
Operating profit	**1,052**	1,390
Depreciation	**151**	185
Amortisation	**1,650**	1,623
EBITDA	**2,853**	3,198
Share-based compensation	**416**	—
Funding costs	**308**	—
Dilapidation provision	**37**	37
Canada set up fees	**10**	—
EBITDA adjusted	**3,624**	3,235

6 Profit before tax

	31 May 2013 £'000	31 May 2012 £'000
This is stated after charging/(crediting)		
Amortisation and impairment on intangibles	**1,650**	1,623
Depreciation of owned property, plant and equipment	**151**	185
Loss on disposal of fixed assets	**—**	1
Research and development costs expensed	**603**	333
Auditor remuneration		
Audit services – statutory audit	**37**	11
Non-audit services – tax services	**4**	3
– other services	**133**	10
Operating leases – land and buildings	**495**	415
Foreign exchange gain	**(26)**	(8)

7 Intangible assets

Group and Company

The Group and Company intangible assets comprise capitalised development tools and self-published software from internal development activities and acquired software licences The carrying amounts for the reporting periods under review can be analysed as follows

	Development tools and licences £'000	Self-published software £ 000	Third party software £ 000	Total £ 000
Cost				
At 31 May 2011	5,181	85	647	5,913
Additions	574	769	90	1,433
Disposals	(732)	—	—	(732)
At 31 May 2012	5,023	854	737	6,614
Additions	695	1,013	75	1,783
Disposals	(768)	—	—	(768)
Transfer to tangibles	—	—	(17)	(17)
Transfer from tangibles	—	—	14	14
Adjustment	—	(78)	—	(78)
At 31 May 2013	**4,950**	**1,789**	**809**	**7,548**
Amortisation and impairment				
At 31 May 2011	1,979	5	408	2,392
Charge for the period	1,207	287	129	1,623
Disposals	(732)	—	—	(732)
At 31 May 2012	2,454	292	537	3,283
Charge for the period	1,093	446	111	1,650
Disposals	(768)	—	—	(768)
Transfer to tangibles	—	—	(1)	(1)
Transfer from tangibles	—	—	12	12
Adjustment	—	(78)	—	(78)
At 31 May 2013	**2,779**	**660**	**659**	**4,098**
Net book value at 31 May 2013	**2,171**	**1,129**	**150**	**3,450**
Net book value at 31 May 2012	2,569	562	200	3,331

All amortisation charges, impairments (or reversals if any) are included within cost of sales

8 Investment in subsidiary undertaking

During 2013 the Company set up a £66 investment in Frontier Developments Inc, a company registered in Canada This represents 100% of the ordinary share capital of the company which is engaged in non-game applications and video games for the interactive entertainment sector

NOTES TO THE FINANCIAL STATEMENTS
continued

9 Property, plant and equipment
Group

	Fixtures and fittings £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 31 May 2011	258	1,035	4	1,297
Additions	—	28	—	28
Disposals	(1)	(108)	—	(109)
Reversals	(36)	—	—	(36)
At 31 May 2012	221	955	4	1,180
Additions	19	226	6	251
Disposals	—	(5)	—	(5)
Transfer from intangibles	—	17	—	17
Transfer to intangibles	—	(14)	—	(14)
At 31 May 2013	**240**	**1,179**	**10**	**1,429**
Depreciation				
At 31 May 2011	113	801	4	918
Charge for the period	54	144	—	198
Disposals	(1)	(107)	—	(108)
Reversals	(13)	—	—	(13)
At 31 May 2012	153	838	4	995
Charge for the period	33	117	1	151
Disposals	—	(5)	—	(5)
Transfer from intangibles	—	1	—	1
Transfer to intangibles	—	(12)	—	(12)
At 31 May 2013	**186**	**939**	**5**	**1,130**
Net book value at 31 May 2013	**54**	**240**	**5**	**299**
Net book value at 31 May 2012	68	117	—	185

9. Property, plant and equipment continued
Company

	Fixtures and fittings £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 31 May 2011	258	1,035	4	1,297
Additions	—	28	—	28
Disposals	(1)	(108)	—	(109)
Reversals	(36)	—	—	(36)
At 31 May 2012	221	955	4	1,180
Additions	11	137	—	148
Disposals	—	(5)	—	(5)
Transfer from intangibles	—	17	—	17
Transfer to intangibles	—	(14)	—	(14)
At 31 May 2013	**232**	**1,090**	**4**	**1,326**
Depreciation				
At 31 May 2011	113	801	4	918
Charge for the period	54	144	—	198
Disposals	(1)	(107)	—	(108)
Reversals	(13)	—	—	(13)
At 31 May 2012	153	838	4	995
Charge for the period	31	89	—	120
Disposals	—	(5)	—	(5)
Transfer from intangibles	—	1	—	1
Transfer to intangibles	—	(12)	—	(12)
At 31 May 2013	**184**	**911**	**4**	**1,099**
Net book value at 31 May 2013	**48**	**179**	**—**	**227**
Net book value at 31 May 2012	68	117	—	185

NOTES TO THE FINANCIAL STATEMENTS
continued

9 Property, plant and equipment continued
Depreciation charges (or reversals, if any) are apportioned to the income statement as follows

	Consolidated year ended		Company year ended	
	31 May 2013 £'000	31 May 2012 £ 000	**31 May 2013 £'000**	31 May 2012 £ 000
Charge				
Cost of sales (including reversals)	**89**	144	**88**	144
Administration expenses	**62**	41	**32**	41
Total	**151**	185	**120**	185

The reversal in 2012 arises from the non-payment for an asset previously capitalised in 2010 but where performance was short of specification

10 Operating leases as lessee
At each period end the future minimum operating lease payments were as follows

	Consolidated year ended		Company year ended	
	31 May 2013 £'000	31 May 2012 £ 000	**31 May 2013 £'000**	31 May 2012 £ 000
Minimum lease payments due within one year	**535**	469	**415**	469
Minimum lease payments due within one to five years	**801**	947	**400**	947
Total	**1,336**	1,416	**815**	1,416

Group lease payments recognised as an expense during the year ended 31 May 2013 £495,269 (2012 £414,983)

The lease payments relate to the rental contracts for the office buildings, which expire April 2015 and August 2015 The lease signed in October 2012 for the Canadian subsidiary expires September 2017

Company lease payments recognised as an expense during the year ended 31 May 2013 £415,983 (2012 £414,983)

The lease payments relate to the rental contracts for the office buildings, which expire April 2015, August 2015 and September 2017

The Group's and Company's operating lease agreements do not contain any contingent rent clauses None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt

11 Financial assets and liabilities
The carrying amounts presented in the Statement of Financial Position relate to the following categories of financial assets and liabilities

	Consolidated year ended		Company year ended	
	31 May 2013 £'000	31 May 2012 £ 000	**31 May 2013 £'000**	31 May 2012 £ 000
Financial assets				
Loans and receivables				
Trade and other receivables	**1,808**	2,362	**2,046**	2,362
Cash and cash equivalents	**7,155**	1,686	**6,819**	1,686
Total	**8,963**	4,048	**8,865**	4,048

11 Financial assets and liabilities continued

	Consolidated year ended		Company year ended	
	31 May 2013 £'000	31 May 2012 £ 000	**31 May 2013 £'000**	31 May 2012 £ 000
Financial liabilities				
Financial liabilities measured at amortised cost				
Current				
Trade and other payables	**1,122**	585	**1,050**	585
Designated at fair value through profit and loss				
Convertible loan notes	**1,129**	—	**1,129**	—
Total	**2,251**	585	**2,179**	585

The financial liability associated with the convertible loan notes comprised interest cashflows payable at 8% and an embedded derivative liability to convert to a variable number of shares Given that the loan note was issued near the period, the liability is based on the net proceeds received The loan notes converted to equity on the admission to AIM

12 Deferred tax assets and liabilities

Deferred taxes arising from temporary differences can be summarised as follows

	Consolidated year ended		Company year ended	
	31 May 2013 £'000	31 May 2012 £ 000	**31 May 2013 £'000**	31 May 2012 £ 000
Accelerated capital allowances	**520**	533	**522**	533
Short-term temporary differences	**(39)**	(36)	**(69)**	(36)
Tax losses (restricted)	**(453)**	(497)	**(453)**	(497)
Total liability	**28**	—	—	—
Balance brought forward	—	—	—	—
Effect of tax rate change on opening balance	—	—	—	—
Movement in year	**28**	—	—	—
Balance carried forward liability	**28**	—	—	—

No deferred tax asset at 31 May 2013 has been recognised in the Statement of Financial Position for the Group The deferred tax liability at 31 May 2013 is £27,793 (2012 £nil), being wholly attributable to the Canadian entity

The table below summarises the deferred tax assets for the Group and Company which have not been recognised in the financial statements as only a proportion of the tax losses are anticipated to crystallise or be able to be used in the foreseeable future Total UK tax losses available at 31 May 2013 amount to £3,694,177 (2012 £3,729,030)

	Consolidated year ended		Company year ended	
	31 May 2013 £'000	31 May 2012 £'000	**31 May 2013 £'000**	31 May 2012 £'000
Deferred tax asset not provided				
Losses	**(397)**	(398)	**(397)**	(398)

13 Inventories

Inventories recognised in the Statement of Financial Position can be analysed as follows

	Consolidated year ended		Company year ended	
	31 May 2013 £'000	31 May 2012 £ 000	**31 May 2013 £'000**	31 May 2012 £ 000
Work in progress	—	75	—	75

There is no material difference between the replacement cost of inventory and the amounts stated above

For the year ended 31 May 2013 a total of £94,366 (2012 £183,687) was included in profit and loss as an expense to cost of sales

NOTES TO THE FINANCIAL STATEMENTS
continued

14 Trade and other receivables
Trade and other receivables recognised in the Statement of Financial Position can be analysed as follows

	Consolidated year ended		Company year ended	
	31 May 2013 £'000	31 May 2012 £ 000	**31 May 2013 £'000**	31 May 2012 £ 000
Trade receivables, gross	**1,580**	2,153	**1,580**	2,153
Intercompany receivable	**—**	—	**325**	—
Allowances for credit losses	**—**	—	**—**	—
Trade receivables, net	**1,580**	2,153	**1,905**	2,153
Other receivables	**228**	209	**141**	209
Financial assets	**1,808**	2,362	**2,046**	2,362
Prepayments	**230**	88	**191**	88
VAT and taxation	**44**	55	**—**	55
Non-financial assets	**274**	143	**191**	143
Trade and other receivables	**2,082**	2,505	**2,237**	2,505

All amounts are short term The net carrying value of trade receivables is considered a reasonable approximation of fair value

Group

			Past due but not impaired	
	Total £ 000	Neither past due nor impaired £ 000	0–90 days £ 000	>90 days £'000
May 2013	**1,580**	**1,580**	**—**	**—**
May 2012	2,153	2,153	—	—

No other receivables are past their due date

Company

			Past due but not impaired	
	Total £'000	Neither past due nor impaired £ 000	0–90 days £ 000	>90 days £ 000
May 2013	**1,905**	**1,905**	**—**	**—**
May 2012	2,153	2,153	—	—

No other receivables are past their due date

14 Trade and other receivables continued

A reconciliation of the allowances for credit losses provision for trade receivable is provided below

	Consolidated year ended		Company year ended	
	31 May 2013 £'000	31 May 2012 £'000	**31 May 2013 £'000**	31 May 2012 £ 000
Brought forward provision	**–**	2,169	–	2,169
Debts written off in period	**–**	(2,169)	–	(2,169)
Carried forward provision	**–**	—	–	—

15 Cash and cash equivalents

Cash and cash equivalents include the following components

	Consolidated year ended		Company year ended	
	31 May 2013 £'000	31 May 2012 £ 000	**31 May 2013 £'000**	31 May 2012 £ 000
Cash at bank and in hand				
GBP	**5,411**	1,671	**5,411**	1,671
USD	**1,218**	5	**1,217**	5
EUR	**22**	10	**22**	10
CAD	**504**	—	**169**	—
Financial assets	**7,155**	1,686	**6,819**	1,686

Cash at bank earns interest at a floating rate based on the length of deposit at standard commercial terms The net carrying value of cash and cash equivalents equates to fair value

16 Equity

Share capital

Group and Company movements in share capital

Movements in ordinary shares are as follows

	Number 000	Value £ 000
At 1 June 2011 and 31 May 2012		
Ordinary shares of 0 1 pence	12,364	12
Shares issued on option exercises	253	1
Shares re-denominated to 0 5 pence	12,617	114
At 31 May 2013	**25,234**	**127**

During the period to 30 November 2012 252,691 ordinary shares of 0 1 pence were allotted as fully paid at a premium of 65 9 pence per share

On 21 December 2012 the Company re-organised into a plc and bonus shares were issued on a 9 to 1 basis out of share premium, on the same day the ordinary shares were re-denominated to 0 5 pence per share The combined effect of these changes resulted in the addition of 12,617,023 shares and a transfer from share premium of £113,553

NOTES TO THE FINANCIAL STATEMENTS

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17 Employee remuneration

Expenses recognised for employee benefits (including Directors) are analysed below

Staff costs for all employees, including Directors, consist of

	31 May 2013 £'000	31 May 2012 £ 000
Wages and salaries	**7,517**	7,248
Social security costs	**774**	764
Pension costs	**–**	3
Share-based compensation	**416**	—
	8,707	8,015

Included in the above payroll costs for the year ended 31 May 2013 is £1,621,571 (2012 £1,251,545) capitalised within intangible fixed assets (Note 7) Pension costs relate to contributions to one employee's private pension plan

The average number of employees, including Directors, during the period were

	31 May 2013 £'000	31 May 2012 £ 000
Research and development	**212**	209
General and administrative	**14**	6
	226	215

Remuneration of Directors	**31 May 2013 £'000**	31 May 2012 £ 000
Directors' emoluments	**318**	273
Non-Executive fees	**25**	8

Emoluments of highest paid Director	**31 May 2013 £'000**	31 May 2012 £ 000
Emoluments	**99**	81

Remuneration of key management personnel

	31 May 2013 £'000	31 May 2012 £ 000
Short-term employee benefits		
Salaries including bonuses	**755**	573
Social security	**101**	72
Total short-term employee benefits	**856**	645
Non-Executive fees	**25**	8
Share-based compensation charge	**183**	—
Key management of the Group are the Board and senior management (functional heads)		
Number of key management personnel, including directors at the statement of financial position date	**11**	8

A total of 648,000 share options were issued in the year to key management including Directors The number of options exercised for ordinary shares from the December 2002 EMI grant was 449,060 (restated after re-denomination)

18 Share options

The Group has an employee share option scheme (EMI scheme), under which options may be granted to employees (including Directors) to subscribe for ordinary shares in the Group The scheme was approved by shareholders in a general meeting The 2012 number and option price have been restated in the respect to the re-denomination of share capital*

Date of grant	Scheme type	Period when exercisable	Price in pence*	**2013 Number**	2012 Number (restated)*
12 November 2002	2002 EMI Scheme	2003–2012	33	**—**	926,000
6 December 2005	2002 EMI Scheme	2006–2015	67	**843,800**	943,800
30 July 2012	2012 EMI Scheme	2013–2011	89	**1,214,000**	—
30 January 2013	Unapproved	2014–2023	89	**100,000**	—
15 May 2013	2012 EMI Scheme	2014–2023	95	**240,000**	—
15 May 2013	Unapproved	2014–2023	95	**20,000**	—
				2,417,800	1,869,800

Movements in the number of share options outstanding and their related weighted average exercise price, as restated for the Share re-denomination in December 2012 are as follows

	Group and Company year ended			
	May 2013		May 2012 (restated)*	
	Number	**Average exercise price in pence**	Number	Average exercise price in pence
Opening balance	**1,869,800**	**50 2**	2,303,800	52 2p
Granted	**1,626,000**	**90 0**	—	—
Exercised	**(505,382)**	**33 0**	—	—
Forfeited	**(572,618)**	**44 0**	(434,000)	61 2p
Closing balance	**2,417,800**	**82 0**	1,869,800	50 2p
Exercisable at the year end	**843,800**	**67 0**	1,869,800	50 2p

There was no weighted average share price at the date of exercise of the share options, as the Company was not quoted

The share options at the end of May 2013 have a weighted average contractual life as follows

		Group and Company year ended			
		May 2013		May 2012 (restated)*	
Expiry date	Exercise price per share Pence	**Options Number**	**Weighted average remaining contractual life Months**	Options Number	Weighted average remaining contractual life Months
November 2012	33	**—**	**—**	926,000	6
December 2015	67	**843,800**	**31**	943,800	43
July 2022	89	**1,214,000**	**108**	—	—
January 2023	89	**100,000**	**116**	—	—
May 2023	95	**260,000**	**120**	—	—
Total		**2,417,800**	**83**	1,869,800	25

NOTES TO THE FINANCIAL STATEMENTS
continued

18 Share options continued
Under the rules of the share option schemes, options are not normally exercisable until one year from the date of the grant Options are valued at date of grant using the Black-Scholes option pricing model

There are no performance conditions attaching to the options

The significant inputs into the model were calculated share price at the grant date, exercise price volatility of 20% and expected option life of ten years and, given that the company was not listed at date of grants, an annual risk free interest rate of 3 87%–4 15% The volatility used is based on similar companies The only vesting condition is continued service in the Company

19 Trade and other payables
Trade and other payables recognised in the statement of financial position can be analysed as follows

	Consolidated year ended		Company year ended	
	31 May 2013 £'000	31 May 2012 £ 000	**31 May 2013 £'000**	31 May 2012 £ 000
Trade payables	**183**	40	**153**	40
Intercompany payable	**–**	—	**30**	—
Other taxation and social security	**284**	188	**285**	188
Accruals and deferred income	**1,464**	639	**1,413**	639
Convertible loan note	**1,129**	—	**1,129**	—
Total trade and other payables	**3,060**	867	**3,010**	867

Trade and other payables are due within one year and with the exception of the convertible loan note are non-interest bearing The convertible loan note carries an interest rate of 8% per annum The loan notes are convertible into ordinary shares on an AIM IPO at a discount rate of 15% of the listing price The carrying values of trade and other payables are considered to be a reasonable approximation of fair value

Payable over more than one year	Consolidated year ended		Company year ended	
	31 May 2013 £'000	31 May 2012 £ 000	**31 May 2013 £'000**	31 May 2012 £ 000
Deferred income	**1,283**	—	**1,283**	—

Deferred income payable over one year represent crowd sourced income recognised where the expected pledge level to which it relates is not expected to be delivered until after one year

20 Provisions for dilapidations

	Consolidated year ended		Company year ended	
	31 May 2013 £'000	31 May 2012 £'000	**31 May 2013 £'000**	31 May 2012 £ 000
Opening balance	**150**	113	**150**	113
Provided for in period	**37**	37	**37**	37
At period end	**187**	150	**187**	150

The dilapidation provision relates to the rental contracts for two office buildings (included within Note 10) These leases expire April 2015 and August 2015 This is when the majority of this expenditure is expected to be incurred The provision is based on the estimated costs of work to be performed to bring the buildings back to a state of repair and condition, similar to the start of the lease The lease of the premises in Canada has no repair conditions

21. Finance income

Finance income may be analysed as follows for the reporting periods presented

	31 May 2013 £'000	31 May 2012 £'000
Interest income from cash and cash equivalents	**19**	10

22 Taxation on ordinary activities

(a) Analysis of the charge in the period

	31 May 2013 £'000	31 May 2012 £ 000
UK corporation tax based on the results for the year	**4**	2
Overseas tax on the results for the period	**(6)**	—
Deferred tax	**28**	—
Tax on profit on ordinary activities	**26**	2

(b) Factors affecting tax expenses

The tax assessed on the profit on ordinary activities for the year differs from the effective tax rate of corporation tax 24 1% (2012 24 0%) as follows

	31 May 2013 £'000	31 May 2012 £ 000
Profit on ordinary activities before taxation	**1,071**	1,400
Tax on profit on ordinary activities at standard rate	**258**	336
Factors affecting tax expense for the year		
Adjustment on transition to IFRS	**–**	(124)
Expenses not deductible for tax purposes	**215**	—
Adjustments for opening deferred tax average rate	**16**	—
Deferred tax not provided	**(1)**	13
Research and development tax credits	**(397)**	(223)
Exercise of share options	**(65)**	—
Total amount of tax	**26**	2

Factors that may affect future tax charges

The Group takes advantage of the enhanced tax deductions for research and development expenditure in the UK and expects to continue to be able to do so From 1 April 2013 the Video Games Tax Relief becomes available and the Group expects that some of its work will qualify for this relief

23 Earnings per share

The calculation of the basic earnings per share is based on the profits attributable to the shareholders of Frontier Developments plc divided by the weighted average number of shares in issue during the year Separate calculations have been performed to a profit taking out the adjusted items in Note 5

	31 May 2013	31 May 2012
Profit attributable to shareholders (£'000)	**1,045**	1,398
Weighted average number of shares	**25,014,043**	24,728,664
Basic earnings per share (pence)	**4 2**	5 7

The calculation of the diluted earnings per share is based on the profits attributable to the shareholders of Frontier Developments plc divided by the weighted average number of shares in issue during the year as adjusted for diluted share options

NOTES TO THE FINANCIAL STATEMENTS
continued

23 Earnings per share continued

	31 May 2013	31 May 2012
Profit attributable to shareholders (£'000)	**1,045**	1,398
Weighted average number of shares	**25,495,040**	25,572,937
Adjusted basic earnings per share (pence)	**4 1**	5 5

The reconciliation of average number of ordinary shares used for basic and diluted earnings per share is as follows

Weighted average number of ordinary shares	31 May 2013	31 May 2012
Ordinary shares	**25,014,043**	24,728,664
Under option	**480,997**	844,273
Diluted average number of shares	**25,495,040**	25,572,937

The calculation of the adjusted earnings per share, as calculated by external analysts, is based on the profit after tax, adjusted for acquired intangible assets Separate calculations have been performed to a profit taking out the adjusted items

	31 May 2013	31 May 2012
Adjusted profit attributable to shareholders (£'000)	**1,816**	1,435
Weighted average number of shares	**25,014,043**	24,728,664
Adjusted basic earnings per share (pence)	**7 3**	5 8
Weighted average number of shares (diluted)	**25,495,040**	25,572,937
Adjusted diluted earnings per share (pence)	**7 1**	5 6

Adjusted profit

	31 May 2013 £'000	31 May 2012 £ 000
Profit attributable to shareholders	**1,045**	1,398
Share-based compensation	**416**	—
Funding costs	**308**	—
Dilapidations provision	**37**	37
Set up of Canadian subsidiary	**10**	—
Adjusted profit	**1,816**	1,435

24 Cashflow adjustments and changes in working capital

The following non-cashflow adjustments and adjustments for changes in working capital have been made to profit before tax to arrive at operating cashflow

Group adjustments and changes

Adjustments	31 May 2013 £'000	31 May 2012 £'000
Depreciation, amortisation and impairment	**1,801**	1,808
Adjustment of cost of property, plant and equipment (see Note 8)	**—**	36
Finance income	**(19)**	(10)
Loss on disposal of fixed assets and available for sale assets	**—**	1
Share-based payment expenses	**416**	—
Taxation	**26**	2
Foreign exchange	**(26)**	(8)
Total adjustments	**2,198**	1,829
Net changes in working capital		
Change in inventories	**75**	184
Change in trade and other receivables	**464**	(373)
Change in trade and other payables	**1,064**	(1,022)
Change in non-current liabilities	**1,320**	37
Total changes in working capital	**2,923**	(1,174)

Company adjustments and changes

Adjustments	31 May 2013 £'000	31 May 2012 £'000
Depreciation, amortisation and impairment	**1,770**	1,808
Adjustment of cost of property, plant and equipment (see Note 8)	**—**	36
Finance income	**(19)**	(10)
Loss on disposal of fixed assets and available for sale assets	**—**	1
Share-based payment expenses	**403**	—
Taxation	**4**	2
Foreign exchange	**(34)**	(8)
Total adjustments	**2,124**	1,829
Net changes in working capital		
Change in inventories	**75**	184
Change in trade and other receivables	**268**	(373)
Change in trade and other payables	**1,014**	(1,022)
Change in non-current liabilities	**1,320**	37
Total changes in working capital	**2,677**	(1,174)

NOTES TO THE FINANCIAL STATEMENTS
continued

25 Related party transactions
Two shareholders receive ongoing royalties or commission as a percentage of royalty sales for some of the Group's video games launched in prior periods

	Consolidated year ended				Company year ended			
Connected party	**Expense paid May 2013 £'000**	**Creditor balance May 2013 £'000**	Expense paid May 2012 £ 000	Creditor balance May 2012 £ 000	**Expense paid May 2013 £'000**	**Creditor balance May 2013 £'000**	Expense paid May 2012 £'000	Creditor balance May 2012 £ 000
Chris Sawyer – Royalties	**53**	**6**	76	18	**53**	**6**	76	18
Marjacq Micro Limited – Sales Commission	**27**	**—**	29	6	**27**	**—**	29	6

One Director was granted an interest-free qualifying loan for the purchase of shares under the Group's Share Option Plan in April 2010 The loan value was £8,000 at 31 May 2013 The loan with repaid to the Company in June 2013

David Braben has assigned his rights to the *Elite* franchise to the Company pursuant to an assignment agreement dated 1 June 2008 The Company has agreed to pay a royalty of 10% of the profits in respect of *Elite* sequels, including *Elite Dangerous* There is no royalty currently due payable under this agreement (2012 £nil)

26 Financial instrument risks
Risk management objectives and policies
The Group is exposed to various risks in relation to financial assets and liabilities Financial assets and liabilities by category are summarised in Note 11 The main types of risks are credit risk, currency risk and liquidity risk

The Group's risk management is coordinated in close cooperation with the Board of Directors and focuses on actively securing the Group's short to medium-term cashflows

The Group does not actively engage in the trading of financial assets for speculative purposes The most significant financial risks to which the Group is exposed are described below

26 1 Credit risk
The Group's exposure is limited to the carrying amount of financial assets and cash and cash equivalents recognised at the year end date (as summarised in Note 11)

The Group's management consider all financial assets, not impaired, for each reporting date are of good credit quality, including those past due In respect of trade and other receivables the Group is exposed to significant credit risk for a single counterparty

The Group considers it has minimal credit risk for liquid funds and other short-term financial assets as cash is held with reputable UK and Canadian banks

At the year end none of the Group's financial assets are secured by collateral or other credit enhancements

26 2 Foreign currency risk
The Group's reporting currency is pounds Sterling (GBP) Exposure to currency exchange rates arises where transactions are in a currency other than the functional currency of the entity, primarily Canadian Dollars (CAD), US Dollars (USD) and Euro (EUR)

The Group does not enter into forward exchange contracts to mitigate the exposure to foreign currency risk as the Group's currency transactions are not considered significant enough to warrant this However the Group does seek to maintain the same level of working capital in both its Canadian subsidiary and in the UK parent, measured in calendar months

26 Financial instrument risks continued

26 2 Foreign currency risk continued

The carrying amounts of the Group's Canadian Dollar, US Dollar and Euro denominated monetary assets outside the functional currency of the entity at the reporting date are as follows

	Consolidated year ended					Company year ended				
	31 May 2013			31 May 2012		**31 May 2013**			31 May 2012	
	CAD £'000	**USD £'000**	**Euro £'000**	USD £'000	Euro £ 000	**CAD £'000**	**USD £'000**	**Euro £'000**	USD £ 000	Euro £ 000
Assets	**169**	**2,758**	**25**	8	12	**501**	**2,756**	**25**	8	12

In addition some of the Group's revenue and overhead transactions are completed in a foreign currency Transaction exposure is hedged through the use of currency bank accounts

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase or decrease in the Sterling exchange rate against all relevant currencies, albeit the main exposures are USD and CAD An increase in Sterling would lead to a decrease in income and a decrease in equity

	Consolidated year ended		Company year ended	
	May 2013 £'000	May 2012 £ 000	**May 2013 £'000**	May 2012 £ 000
Effect of a 5% change in relevant exchange rate on				
Income statement	**100**	32	**100**	32
Equity	**105**	32	**123**	32

26 3 Liquidity risk analysis

Liquidity risk is the risk arising from the Group not being able to meet its obligations as they fall due The Group manages its liquidity needs by carefully monitoring forecast cash inflows and outflows due in day-to-day business Net cash requirements determine headroom or any shortfalls over the medium term This analysis shows if there is a need to seek external funding or the need for securing finance from its shareholder base

The Group's financial liabilities have contractual maturities as summarised below

	Current			Non-current
	Within 6 months £ 000	Between 6 and 12 months £ 000	Between 1 and 5 years £ 000	Later than 5 years £ 000
As at 31 May 2013				
Trade and other payables	**564**	**479**	**79**	–
As at 31 May 2012				
Trade and other payables	164	282	139	—

The Company's financial liabilities have contractual maturities as summarised below

	Current			Non-current
	Within 6 months £ 000	Between 6 and 12 months £ 000	Between 1 and 5 years £'000	Later than 5 years £ 000
As at 31 May 2013				
Trade and other payables	**492**	**479**	**79**	–
As at 31 May 2012				
Trade and other payables	164	282	139	—

NOTES TO THE FINANCIAL STATEMENTS

continued

26 Financial instrument risks continued

26 3 Liquidity risk analysis continued

The convertible loan notes have no contractual redemption rights

Financial assets used for managing liquidity risk

Cashflows from trade and other receivables are contractually due within six months

Cash is generally held in accounts with immediate notice Where surplus cash deposits are identified these are placed in accounts with access terms of no more than one year

26 4 Interest rate sensitivity

The convertible loan carries a fixed rate of 8% per annum The Group has no other borrowings through which it is subject to interest rate risk

The risk associated with interest earned on cash balances is low given low level of interest currently being earned worldwide

27 Capital management policies and procedures

The Group's capital management objective is to ensure the Group's ability to continue as a going concern by securing sufficient funding through equity or debt

The Group sets the amount of capital in proportion to its overall financing structure, i e equity and financial liabilities The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the strategic plans of the business over a rolling three-year forecast In order to maintain or adjust the capital structure and provide funds to support the planned growth, the Group may issue new shares or raise other funds through debt The Group undertook a public listing on AIM in July 2013 to meet this objective

At each balance sheet date the Group had no borrowings except for the convertible loan note The Group is not subject to externally imposed capital requirements

Capital for the reporting period under review is summarised as follows

	Consolidated year ended		Company year ended	
	31 May 2013 £'000	31 May 2012 £ 000	**31 May 2013 £'000**	31 May 2012 £ 000
Total equity	**8,395**	6,763	**8,252**	6,763
Convertible loan	**1,129**	—	**1,129**	—
Less cash and cash equivalent	**(7,155)**	(1,686)	**(6,819)**	(1,686)
	2,369	5,077	**2,562**	5,077

28 Ultimate control

The Directors consider that David Braben has ultimate control of the Group by reference to his shareholding interest

NOTICE OF MEETING

FRONTIER DEVELOPMENTS PLC
(Incorporated and registered in England and Wales with no 02892559)

(THE "COMPANY")

Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of Frontier Developments plc at 306 Science Park, Milton Road, Cambridge CB4 0WG on Monday 23 December 2013 at 10 a m (London time) for the following purposes

ORDINARY BUSINESS
To consider and, if thought fit, pass the following resolutions as ordinary resolutions

Resolution 1 To receive and adopt the financial statements for the year ended 31 May 2013 together with the Reports of the Directors and Auditors thereon

Resolution 2 To re-appoint David John Braben as a Director, who has retired by rotation in accordance with Article 70 of the Company's Articles of Association (the "**Articles**") and is therefore required to stand for re-election pursuant to Article 70 of the Articles

Resolution 3 To re-appoint David Gammon as a Director, who has retired by rotation in accordance with Article 70 of the Company's Articles of Association (the "**Articles**") and is therefore required to stand for re-election pursuant to Article 70 of the Articles

Resolution 4 To re-appoint Grant Thornton UK LLP as the Company's auditor until the conclusion of the next Annual General Meeting and to authorise the Directors to determine the auditor's remuneration for the ensuing year

OTHER BUSINESS
To consider and, if thought fit, pass the following resolution as an ordinary resolution

Resolution 5 **THAT** in substitution for all authorities in existence immediately prior to this resolution being passed, the directors of the Company (the "**Directors**") be and are hereby generally and unconditionally authorised to exercise all powers of the Company, pursuant to Section 551 of the Companies Act 2006 (the "Act"), to allot equity securities (within the meaning of Section 560 of the Act) up to an aggregate nominal amount of £51,892 54, which represents one-third of the nominal value of the Company's issued share capital at the date of this notice provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired

To consider and, if thought fit, pass the following resolution as a special resolution

Resolution 6 **THAT**, subject to the passing of resolution 5 above, the Directors be empowered in accordance with Section 570 and Section 571 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred on them pursuant to resolution 5 above as if Section 561(1) of the Act did not apply to any such allotment provided that this power shall be limited to

(a) the allotment of equity securities in connection with an open offer or otherwise in favour of ordinary shareholders in proportion (as nearly as possible) to the respective number of shares held, or deemed to be held, by them subject only to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or problems arising in any territory or with the requirements of any recognised regulatory body or stock exchange in any territory, and

(b) the allotment of equity securities (otherwise than pursuant to sub-paragraph (a) above) up to an aggregate nominal amount of £15,567 76 which represents one-tenth of the nominal value of the Company's issued share capital as at the date of this notice,

provided that this power shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired

By order of the Board

David Gammon
Chairman
13 November 2013
Frontier Developments plc

EXPLANATORY NOTES

to the Notice of Annual General Meeting

Notes

1 A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of him A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member The proxy need not be a member of the Company Please refer to the notes to the Form of Proxy for further information on appointing a proxy, including how to appoint multiple proxies (as the case may be)

2 If you wish your proxy to speak on your behalf at the meeting, you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them If you wish to appoint a proxy other than the Chairman, write the full name of your proxy in the box provided in the Form of Proxy

3 In the absence of instructions, the person appointed proxy may vote or abstain from voting as he/she thinks fit on the specified resolutions and, unless otherwise instructed, may also vote or abstain from voting on any other matter (including amendments to resolutions) which may properly come before the meeting

4 In the case of joint holders, the signature of any one of them will suffice but the names of all joint holders should be stated The vote of the senior who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the votes of the other holders For this purpose, seniority is determined by the order in which the names stand in the register of members in respect of the joint holding

5 To be effective, the enclosed Form of Proxy must be duly completed and deposited together with any power of attorney or other authority (if any) under which it is executed (or a duly certified copy of such power or authority) and lodged at the offices of the Company no later than **11 a m** on **Saturday 21 December 2013** (being not more than 48 hours prior to the time fixed for the meeting)

6 Whether or not you propose to attend the Annual General Meeting, please complete and submit a Form of Proxy in accordance with the instructions printed on the enclosed form Completion and return of the Form of Proxy will not preclude a shareholder from attending and voting in person at the meeting

7 The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members entered on the register of members of the Company at **11 a m** UK time on **Saturday 21 December 2013** (being not more than 48 hours prior to the time fixed for the meeting) shall be entitled to attend and vote at the meeting or, if the meeting is adjourned, 11 a m UK time on such date being not more than two working days prior to the date fixed for the adjourned meeting Changes to entries on the register of members after such time shall be disregarded in determining the right of any person to attend or vote at the meeting

8 The following documents will be available for inspection from the date of this notice until the meeting at the Company's registered office and at the meeting convened by this notice

(a) Register of Directors' share interests, and

(b) Directors' service contracts

ADVISORS AND COMPANY INFORMATION

Company Secretary and CFO
Mr N R Armstrong

Registered and Head Office
306 Science Park
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Cambridge CB4 0WG

Website
www frontier co uk

Broker and Nominated Advisor
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Auditor
Grant Thornton UK LLP
101 Cambridge Science Park
Milton Road
Cambridge CB4 0FY

Legal advisors to the Company
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Registrars
Capita Registrars
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London EC3N 1DX

Registered Number
02892559
(Incorporated and registered in England and Wales)